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# Reporting Implications of New Auditing and Accounting Standards

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**CICA**

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This CICA publication has been developed by the Task Force on Audit Reporting Implications of the New Canadian Auditing Standards. The material in this Guide represents the views of the Task Force.

Practitioners are expected to use professional judgment in determining whether the material in this Guide is both appropriate and relevant to the circumstances of each audit engagement. This Guide has not been issued under the authority of the Auditing and Assurance Standards Board (AASB).

## Introduction

There are a number of significant changes taking place to accounting and auditing standards in Canada. The Auditing and Assurance Standards Board (AASB) recognizes that these changes may have an impact on the form and content of practitioners' reports. The AASB formed a Task Force to develop guidance that will address complex reporting issues that may arise during this period of change with a view to promoting consistency in reporting.

## Changes to accounting standards

The Accounting Standards Board's (AcSB) 2006-2011 strategic plan calls for the pursuit of different reporting strategies for each major category of reporting entity. As a result, the CICA Handbook - Accounting has been restructured to move away from a single financial reporting framework referred to as Canadian generally accepted accounting principles (GAAP) to include various different financial reporting frameworks in Canadian GAAP. These different financial reporting frameworks in Canadian GAAP are identified in the CICA Handbook - Accounting as follows:

- Part I — International Financial Reporting Standards (IFRSs)
- Part II — Accounting standards for private enterprises
- Part III — Accounting standards for not-for-profit organizations
- Part IV — Accounting standards for pension plans
- Part V — Canadian GAAP prior to the adoption of Parts I, II, III or IV (Pre-changeover accounting standards)

Part I is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011 (except for a two-year deferral for investment companies and segregated accounts of life insurance enterprises and a one-year deferral for entities with rate-regulated activities, as outlined in paragraph I.7 of the Introduction to Part I of the CICA Handbook - Accounting). Parts II and IV are effective for annual financial statements relating to fiscal years beginning on or after January 1, 2011. Part III is effective for annual financial statements relating to fiscal years beginning on or after January 1, 2012. Earlier application of Parts I - IV is permitted. If an entity chooses not to adopt the standards applicable to it before their effective date, it continues to follow Part V, pre-changeover accounting standards, prior to that date.

The CICA Public Sector Accounting Handbook contains the accounting standards for federal, provincial, territorial and local governments and government organizations. The Public Sector Accounting Board (PSAB) has made changes to its standards clarifying which standards apply to government organizations. For example, government business enterprises are required to follow IFRSs for periods beginning on or after January 1, 2011. Other government organizations are permitted to choose to prepare their financial statements in accordance with public sector standards or with IFRSs, based on the needs of users of their financial statements. Government not-for-profit organizations will be required to apply the accounting standards in the CICA Public Sector Accounting Handbook, with or without the "PS 4200" series of standards, for fiscal periods beginning on or after January 1, 2012.

## Changes to auditing standards

The AASB has adopted International Standards on Auditing as Canadian Auditing Standards (CASs) effective for audits of financial statements and other historical financial information for periods ending on or after December 14, 2010. The CASs are contained in Part I of the CICA Handbook – Assurance. The standards in effect before the effective date of the CASs have been retained in Part II of the CICA Handbook – Assurance.

## Purpose of this Guide

With the complexities relating to the changes to accounting and auditing standards, the purpose of this Guide is to promote consistency in the form and content of practitioners' reports by providing guidance with respect to commonly occurring circumstances. This Guide does not amend or override auditing or review standards, the texts of which alone are authoritative, nor does it necessarily address all audit reporting changes resulting from the new CASs. With respect to audit reporting on financial statements for periods ending on or after December 14, 2010, readers are referred to the following CASs for guidance:

- CAS 700, *Forming an Opinion and Reporting on Financial Statements*
- CAS 705, *Modifications to the Opinion in the Independent Auditor's Report*
- CAS 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*
- CAS 710, *Comparative Information – Corresponding Figures and Comparative Financial Statements*
- CAS 800, *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*
- CAS 805, *Special Considerations – Audits of Single Financial Statements and Special Elements, Accounts or Items of a Financial Statement*
- CAS 810, *Engagements to Report on Summary Financial Statements*

Readers are also referred to the following useful guides :

- CICA Explanatory Memorandum "[Reporting on Financial Statements under Canadian Auditing Standards](#)" that helps stakeholders understand the decision-making process followed by the auditor when reporting on financial statements, and the form of the auditor's report, under the CASs.
- CICA Guide "[Assurance Implications of the Changeover to IFRSs](#)" that provides guidance to auditors dealing with significant auditing and assurance matters arising from their clients' changeover from pre-changeover accounting standards to IFRSs.

## 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 new version.

The Guide presents a series of issues in Question and Answer format. It also presents a series of Illustrative Reports. These are designed to help practitioners understand and apply requirements and supporting guidance issued by the AASB relating to reporting.

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# Table of Contents

Questions & Answers Relating to Reporting on New Accounting Frameworks.....	1
Q&A 1(a) Application of Auditing Standards to the Opening Statement of Financial Position .....	1
Q&A 1(b) Reference to the Financial Reporting Framework in the Practitioner’s Report.....	2
Q&A 1(c) Describing in the Opinion Paragraph in the Auditor’s Report the Information the Financial Statements Are Designed to Present .....	5
Q&A 1(d) Comparative Information and its Effect on the Auditor’s Report on the First Financial Statements Prepared in Accordance with a New Financial Reporting Framework.....	8
Q&A 1(e) Describing the Financial Reporting Framework when an Entity Uses Pre-changeover Accounting Standards in 2010 .....	11
Q&A 1(f) Early Adoption of a New Financial Reporting Framework and the Need for an Emphasis of Matter Paragraph.....	13
Q&A 1(g) Referring to Canadian GAAP in the Auditor’s Report on Financial Statements Prepared in Accordance with a New Financial Reporting Framework.....	15
Q&A 1(h) The Review Engagement Report on the First Financial Statements Prepared in Accordance with Accounting Standards for Private Enterprises .....	17
Questions & Answers on Other Reporting Matters .....	20
Q&A 2(a) Comparative Information and Its Effect on the Auditor’s Report .....	20
Q&A 2(b) Alerting Readers that the Financial Statements Are Prepared in Accordance with a Special Purpose Framework.....	22
Q&A 2(c) The Form of Auditor’s Report on Financial Statements Prepared in Accordance with Different General Purpose Frameworks .....	24
Q&A 2(d) Fair Presentation versus Compliance Financial Reporting Frameworks.....	30
Q&A 2(e) Emphasis of Matter and Other Matter Paragraphs in the Auditor’s Report.....	34
Q&A 2(f) Dating of the Practitioner’s Report .....	38

Illustrative Reports.....	43
Introduction to Illustrative Reports.....	43
First Financial Statements under International Financial Reporting Standards.....	44
1(a) IFRSs Are Adopted for Financial Statement Periods Ending Prior to December 14, 2010 — Auditor’s Report Refers to Each Period for which Financial Statements Are Presented.....	44
1(b) IFRSs Are Adopted on the Effective Date — Auditor’s Report Refers to Each Period for which Financial Statements are Presented .....	46
1(c) IFRSs Are Adopted on the Effective Date — Auditor’s Report Refers to the Current Period Only.....	48
First Financial Statements under Canadian Accounting Standards for Private Enterprises .....	51
2(a) Accounting Standards for Private Enterprises Are Adopted for Financial Statement Periods Ending Prior to December 14, 2010 — Auditor’s Report Refers to the Current Period Only .....	51
2(b) Accounting Standards for Private Enterprises Are Adopted for Financial Statement Periods Ending Prior to December 14, 2010 — Review Engagement Report Refers to the Current Period Only .....	53
2(c) Accounting Standards for Private Enterprises Are Adopted on the Effective Date — Auditor’s Report Refers to Each Period for which Financial Statements Are Presented.....	55
2(d) Accounting Standards for Private Enterprises Are Adopted on the Effective Date — Auditor’s Report Refers to the Current Period Only` .....	57
Special Purpose Financial Statements.....	60
3(a) Pension Fund Financial Statements Filed with a Regulator — Auditor’s Report.....	60
3(b) Financial Statements Prepared in Accordance with the Terms of a Purchase and Sale Agreement — Auditor’s Report.....	63
3(c) Financial Statements of a Co-operative Housing Association Filed with Canada Mortgage and Housing Corporation — Auditor’s Report .....	66
3(d) Non-consolidated Financial Statements Prepared for a Specific Purpose in Accordance with a General Purpose Financial Reporting Framework (Canadian accounting standards for private enterprises) — Auditor’s Report .....	69
3(e) Non-consolidated Financial Statements Prepared in Accordance with a Special Purpose Financial Reporting Framework (Pre-changeover accounting standards) — Auditor’s Report.....	71

Reports on Financial Statements Prepared in Accordance with National Instrument 52-107 .....	74
4(a) Financial Statements of a Registrant Prepared in Accordance with National Instrument 52-107, subsection 3.2(4) — Auditor’s Report .....	75
4(b) Financial Statements of a Registrant Prepared in Accordance with National Instrument 52-107, paragraph 3.2(3)(a) — Auditor’s Report .....	78
4(c) Acquisition Statement for an Oil and Gas Property Prepared in Accordance with National Instrument 52-107, subsection 3.11(5) — Auditor’s Report .....	81
4(d) Carve-out Financial Statements Prepared in Accordance with National Instrument 52-107, subsection 3.11(6) — Auditor’s Report.....	84
 Reports for Audits Conducted in Accordance with Both Canadian Auditing Standards and the Standards of the Public Company Accounting Oversight Board (United States) .....	87
5(a) Financial Statements Prepared in Accordance with Pre-changeover Accounting Standards for the Year Ended December 31, 2010, with Reconciliation between United States (US) GAAP and Pre-changeover Accounting Standards — Auditor’s Report.....	89
5(b) Financial Statements Prepared in Accordance with IFRSs for the Year Ended December 31, 2010 — Auditor’s Report .....	91
5(c) Financial Statements Prepared in Accordance with US GAAP for the Year Ended December 31, 2010 — Auditor’s Report .....	93
 Summary of Changes to this Guide .....	95
 Task Force on Audit Reporting Implications of New Canadian Auditing Standards.....	96





## QUESTIONS & ANSWERS RELATING TO REPORTING ON NEW ACCOUNTING FRAMEWORKS

### Q&A 1(a) Application of Auditing Standards to the Opening Statement of Financial Position

***Which auditing standards does the auditor apply to the audit of the opening statement of financial position when an entity transitions to a new financial reporting framework for its 2011 financial statements, and what is the form of the auditor's report?***

1. The transition provisions in certain parts of the CICA Handbook – Accounting require that the financial statements in the first year of adoption of a new financial reporting framework contain an opening statement of financial position.<sup>1</sup> Existing auditing standards apply for audits of financial statements for periods ending before December 14, 2010. The CASs apply for audits of financial statements for periods ending on or after this date. Earlier adoption of the CASs is not permitted. The question of which auditing standards to apply arises when the first financial statements prepared in accordance with a new financial reporting framework are for a period ending after December 14, 2010 and those financial statements include an opening statement of financial position as at a date prior to December 14, 2010. For example, for an entity with a calendar year end, the entity's first financial statements would include the entity's statements of financial position as at:
  - (a) December 31, 2011;
  - (b) December 31, 2010; and
  - (c) January 1, 2010 (opening statement of financial position).
2. During an entity's changeover to a new financial reporting framework, the entity's auditor would apply the CASs in auditing the December 31, 2011 and December 31, 2010 statements of financial position because these financial statement periods are after the effective date of the CASs.
3. There are various supportable views on whether existing auditing standards or the CASs should be applied to the January 1, 2010 opening statement of financial position. Therefore, in auditing this financial statement, the auditor may choose to apply:
  - (a) the auditing standards in Part II of the CICA Handbook – Assurance;<sup>2</sup>
  - (b) the CASs; or
  - (c) a combination of both.
4. In all circumstances, the auditor's report would make reference to Canadian generally accepted auditing standards (GAAS). The auditor's report on the 2011 financial statements would be in the form required by CAS 700, *Forming an Opinion and Reporting on Financial Statements*, as set out in Illustrative Reports in this Guide.

<sup>1</sup> See, for example, *First-Time Adoption*, paragraph 1500.05 in Part II of the CICA Handbook – Accounting. Similar requirements are contained in other Parts of the CICA Handbook – Accounting.

<sup>2</sup> For audits of opening statements of financial position as at December 14, 2010, or thereafter, only the CASs apply.

## Q&A 1(b) Reference to the Financial Reporting Framework in the Practitioner's Report

***How should the practitioner's report refer to the financial reporting framework when financial statements are prepared in accordance with one of the financial reporting frameworks of the CICA Handbook – Accounting or the CICA Public Sector Accounting Handbook?***

### Background

1. Unlike Section 5400, *The Auditor's Standard Report*, which focuses on a single financial reporting framework (Canadian GAAP), the CASs do not specify a particular financial reporting framework as being the acceptable financial reporting framework for general purpose financial statements. CAS 210, *Agreeing the Terms of Audit Engagements*, indicates that, at present there is no objective and authoritative basis that has been generally recognized globally for judging acceptability of general purpose frameworks. In the absence of such a basis, financial reporting standards established by organizations that are authorized or recognized to promulgate standards are presumed to be acceptable for general purpose financial statements. 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.
2. The following general principles have been followed to promote consistency in the wording of the auditor's report:
  - (a) The report would clearly describe the financial reporting framework applied by management in preparing the financial statements. Because the CICA Handbook – Accounting has been restructured to include 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 CICA Handbook – Accounting require that the basis of presentation be specifically stated in the financial statements.<sup>3</sup>

<sup>3</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 CICA Handbook – Accounting.

**Financial statements prepared in accordance with IFRSs**

3. In considering how to describe, in the practitioner's 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 CICA 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 auditor's 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 auditor's 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 CICA Handbook - Accounting. However, including these words in the description of the financial reporting framework is not incorrect or prohibited. Canadian securities legislation requires the auditor's report to refer to "International Financial Reporting Standards". This is the wording that is used in the Illustrative Reports in this Guide. 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, *Forming an Opinion and Reporting on Financial Statements*, requires the auditor to evaluate whether the description of the financial reporting framework is adequate.

**Financial statements prepared in accordance with pre-changeover accounting standards**

4. An entity applies the accounting standards in Part V of the CICA Handbook - Accounting until it adopts the accounting standards in one of the other Parts. The financial reporting framework in a practitioner's report on financial statements prepared in accordance with the accounting standards in Part V would be described as "Canadian generally accepted accounting principles." Continued use of Part V, after the mandatory effective date of the other Parts, will not constitute Canadian GAAP.

**Financial statements prepared in accordance with other financial reporting frameworks in the CICA Handbook – Accounting**

5. In considering how to describe, in the practitioner's report, financial statements prepared in accordance with other financial reporting frameworks in the CICA Handbook – Accounting, the principles in paragraph 2 of this Q&A have been considered. Further, paragraph 37 of CAS 700 requires the auditor's opinion to identify the jurisdiction of origin. Accordingly, for accounting standards for private enterprises, the description in reports would be "Canadian accounting standards for private enterprises." A similar approach would be taken for the other financial reporting frameworks in the CICA Handbook – Accounting. For example, accounting standards for pension plans in Part IV of the CICA Handbook – Accounting would be referred to as "Canadian accounting standards for pension plans."

**Financial statements prepared in accordance with accounting standards in the CICA Public Sector Accounting Handbook**

6. The financial reporting framework in a practitioner's report on financial statements prepared in accordance with the accounting standards in the CICA Public Sector Accounting Handbook would be described as "Canadian public sector accounting standards."

**Performing an audit in accordance with Part II, or a review in accordance with either Part I or II, of the CICA Handbook – Assurance**

7. The approach set out in this Q&A describing the financial reporting framework in accordance with which the financial statements have been prepared may also be used when a practitioner is performing an audit in accordance with the standards in Part II of the CICA Handbook – Assurance and reports in accordance with Section 5400, *The Auditor's Standard Report*, or a review in accordance with Section 8200, *Public Accountant's Review of Financial Statements*. This would be applicable, for example, when an entity early adopts a new financial reporting framework such as IFRSs or accounting standards for private enterprises.

## Q&A 1(c) Describing in the Opinion Paragraph in the Auditor's Report the Information the Financial Statements Are Designed to Present

***When an entity adopts a new financial reporting framework, how should the auditor describe in the opinion paragraph in the auditor's report the information that the financial statements are designed to present?***

### **Background**

1. Paragraph A29 of CAS 700, *Forming an Opinion and Reporting on Financial Statements*, indicates that the auditor's opinion states that the financial statements present fairly, in all material respects, the information 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. *The Auditor's Standard Report*, paragraph 5400.14, requires the auditor, in the opinion paragraph, to express his or her opinion whether the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the entity in accordance with Canadian generally accepted accounting principles.
3. 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 auditor's report under either CAS 700 or Section 5400.

### **International Financial Reporting Standards (Part I of the CICA Handbook – Accounting)**

4. 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.
5. Therefore, the auditor's opinion would be worded as follows, when the auditor's report refers to the current period only as discussed in Q&A 2(a): "In our opinion, the 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."

### **Accounting standards for private enterprises (Part II of the CICA Handbook – Accounting)**

6. *General Standards of Financial Statement Presentation*, paragraph 1400.03 in Part II of the CICA 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.

7. Therefore, the auditor's opinion would be worded as follows, when the auditor's report refers to the current period only as discussed in Q&A 2(a): "In our opinion, the financial statements present fairly, in all material respects, the financial position of [the Company] as at [Date], and the results of its 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 CICA Handbook – Accounting)**

8. *General Standards of Financial Statement Presentation*, paragraph 1401.03 in Part III of the CICA 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.
9. Therefore, the auditor's opinion would be worded as follows, when the auditor's report refers to the current period only as discussed in Q&A 2(a): "In our opinion, the financial statements present fairly, in all material respects, the financial position of [the Organization] as at [Date], and the results of its 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 CICA Handbook – Accounting)**

10. *Pension Plans*, paragraph 4600.10 in Part IV of the CICA Handbook – Accounting, states that financial statements shall consist of:
  - (a) a statement of financial position;
  - (b) a statement of changes in net assets available for benefits; and
  - (c) a statement of changes in pension obligations.
11. Therefore, the auditor's opinion would be worded as follows, when the auditor's report refers to the current period only as discussed in Q&A 2(a): "In our opinion, the financial statements present fairly, in all material respects, the financial position of [the Pension Plan] as at [Date], and the changes in its net assets available for benefits and changes in its pension obligations for the [period] then ended in accordance with Canadian accounting standards for pension plans."

**Pre-changeover accounting standards  
(Part V of the CICA Handbook – Accounting)**

12. *General Standards of Financial Statement Presentation*, paragraph 1400.03 in Part V of the CICA 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.
13. Therefore, the auditor's opinion would be worded as follows, when the auditor's report refers to the current period only as discussed in Q&A 2(a): "In our opinion, the financial statements present fairly, in all material respects, the financial position of [the Company] as

at [Date], and the results of its operations and its cash flows for the [period] then ended in accordance with Canadian generally accepted accounting principles.”

**Public sector accounting standards  
(CICA Public Sector Accounting Handbook)**

14. *Financial Statement Presentation*, paragraph PS 1200.012 in the CICA Public Sector Accounting Handbook, states that financial statements should present any information required for the fair presentation of a government’s financial position, results of operations, changes in net debt, and cash flow.
15. Therefore, the auditor’s opinion would be worded as follows, when the auditor’s report refers to the current period only as discussed in Q&A 2(a): “In our opinion, the financial statements present fairly, in all material respects, the financial position of [the government] as at [Date], and the results of its operations, changes in its net debt, and its cash flows for the [period] then ended in accordance with Canadian public sector accounting standards.”



## **Q&A 1(d) Comparative Information and its Effect on the Auditor's Report on the First Financial Statements Prepared in Accordance with a New Financial Reporting Framework**

***How does the difference between “comparative financial statements” and “corresponding figures” under the CASs affect the auditor's report on the first financial statements when an entity transitions to a new financial reporting framework?***

1. The distinction between the two approaches discussed in Q&A 2(a) is important with respect to audits of the first financial statements under new financial reporting frameworks that contain transition provisions requiring comparative information, including related notes, to be presented. For example, for an entity with a calendar year end, the entity's first financial statements prepared in accordance with a new financial reporting framework would include the entity's statements of financial position as at:
  - (a) December 31, 2011;
  - (b) December 31, 2010; and
  - (c) January 1, 2010 (opening statement of financial position).
2. The auditor would discuss with the entity what approach is to be adopted for the entity's first financial statements and how the auditor is being engaged to report. In many cases, the auditor may be responsible for reporting on all financial statement periods presented (for example, if an obligation arises because the entity is a reporting issuer). (See paragraphs 3-6 of this Q&A and Illustrative Report 1(b) when the auditor's report refers to each period for which financial statements are presented.) In other cases, the entity may have a choice (for example, if the entity is a private enterprise). When the entity has a choice, the entity may consider it preferable for the auditor to report on all financial statement periods presented rather than 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. (See paragraphs 7-11 of this Q&A and Illustrative Report 1(c) when the auditor's report refers to the current period only.) Such entities may also prefer the form of report in Illustrative Report 1(b) as compared to Illustrative Report 1(c).

**Reporting on first financial statements on transition to a new financial reporting framework when the auditor's report refers to each period for which financial statements are presented**

3. When the auditor is engaged to report on all financial statement periods presented, the auditor is required to issue an audit opinion on all three balance sheets and two operating periods prepared in accordance with the new financial reporting framework, using the audit reporting approach for comparative financial statements discussed in Q&A 2(a).



4. While the auditor may have audited the financial statements for the years ended December 31, 2010 and December 31, 2009 prepared in accordance with the pre-changeover accounting standards, the auditor will not have previously audited the financial statements for those periods prepared in accordance with the new financial reporting framework.
5. When reporting on the first financial statements for 2011 prepared in accordance with the new financial reporting framework, the auditor will be reporting on the December 31, 2010 financial statements and the January 1, 2010 opening statement of financial position prepared in accordance with the new financial reporting framework for the first time. Accordingly, the auditor will be required to obtain sufficient appropriate audit evidence to support the auditor's opinion on those financial statements.
6. The auditor is able to use the work performed in auditing the financial statements for the years ended December 31, 2010 and December 31, 2009 prepared in accordance with pre-changeover accounting standards. However, because the comparative financial statements are prepared in accordance with the new financial reporting framework, the auditor will have to perform additional audit procedures 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 pre-changeover accounting standards.

**Reporting on first financial statements on the transition to a new financial reporting framework when the auditor's report refers to the current period only**

7. While the auditor may have audited the financial statements for the years ended December 31, 2010 and December 31, 2009 prepared in accordance with the pre-changeover accounting standards, the auditor will not have previously audited the financial statements for those periods prepared in accordance with the new financial reporting framework.
8. When the auditor's report refers to the current period only, using the audit reporting approach for corresponding figures discussed in Q&A 2(a), there may be an incorrect presumption by readers of the auditor's report on the first financial statements prepared in accordance with the financial reporting framework that the auditor has previously issued an auditor's report on the comparative information.
9. Unless the auditor has been specifically engaged to perform an audit of the December 31, 2010 financial statements and the January 1, 2010 opening statement of financial position prepared in accordance with the new financial reporting framework, these financial statements are unaudited. In such a case, the comparative information is presented in the form of corresponding figures and the auditor complies with paragraph 14 of CAS 710, *Comparative Information – Corresponding Figures and Comparative Financial Statements*, that requires the auditor to state in an Other Matter

paragraph in the auditor's report that the corresponding figures are unaudited. The Other Matter paragraph is included in the auditor's report irrespective of whether:

- (a) the corresponding figures are marked as unaudited; or
- (b) the notes to the financial statements indicate that the auditor has not audited, and does not express an opinion on, the corresponding figures.

10. Paragraph 14 of CAS 710 also indicates that a statement in an Other Matter paragraph referred to in paragraph 9 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, *Initial Audit Engagements – Opening Balances*. 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 3 to 6 of this Q&A. Accordingly, the auditor may wish to discuss with the entity whether it would be more appropriate for the auditor to report on all periods presented, as discussed in paragraph 2 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.
11. 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, 2010 and December 31, 2009 prepared in accordance with pre-changeover accounting standards 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 9 of this Q&A. As a result, readers of the auditor's report may misunderstand that the auditor was not engaged to opine on the December 31, 2010 financial statements and the January 1, 2010 opening statement of financial position 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.

## Q&A 1(e) Describing the Financial Reporting Framework when an Entity Uses Pre-Changeover Accounting Standards in 2010

***How is the financial reporting framework described in the practitioner's report when an entity uses pre-changeover accounting standards and, in particular, differential reporting options in its financial statements for periods ending on or after December 14, 2010?***

### Background

1. Pre-changeover accounting standards permit certain entities to prepare their financial statements using differential reporting options.
2. For audits of financial statements for periods ending before December 14, 2010, Part II of the CICA Handbook – Assurance applies, and Section 5400, *The Auditor's Standard Report*, requires the introductory paragraph in the auditor's report to indicate that the financial statements have been prepared in accordance with Canadian GAAP using differential reporting options available to non-publicly accountable enterprises.
3. For audits of financial statements for periods ending on or after December 14, 2010, Part I of the CICA Handbook – Assurance applies, and the CASs do not specifically address differential reporting options or how the auditor should report when the entity has prepared financial statements using those options. However, paragraph 6 of CAS 210, *Agreeing the Terms of Audit Engagements*, requires that the auditor determine whether the applicable financial reporting framework is acceptable and paragraph 15 of CAS 700, *Forming an Opinion and Reporting on Financial Statements*, requires the auditor to evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework.
4. For reviews of financial statements for periods ending before and after December 14, 2010, Section 8200, *Public Accountant's Review of Financial Statements*, applies. When reporting on an entity that prepares its financial statements in accordance with pre-changeover accounting standards using differential reporting options, Section 8200 requires the public accountant to indicate in the scope paragraph that the financial statements have been prepared in accordance with Canadian GAAP using differential reporting options available to non-publicly accountable enterprises.

### Description of the financial reporting framework in the auditor's report

5. The auditor's report on financial statements for periods ending on or after December 14, 2010 prepared in accordance with pre-changeover accounting standards, including differential reporting options, will be in the form required by CAS 700. The description of the financial reporting framework in the auditor's report would be "Canadian generally accepted accounting principles" and would not make separate reference to differential reporting options. This is because differential reporting options are

accounting policies the entity selects and applies within a financial reporting framework and are not a separate financial reporting framework. The notes to the financial statements will describe the accounting policies selected by the entity, which may include the use of differential reporting options, if appropriate.

6. Entities that currently use differential reporting options may transition to accounting standards for private enterprises on January 1, 2011. While accounting standards for private enterprises include certain options that exist as differential reporting options in Part V of the CICA Handbook – Accounting, the auditor would not make separate reference to these differential reporting options when describing the financial reporting framework in the auditor's report for the same reason as discussed in paragraph 5.

**Description of the financial reporting framework in the public accountant's review engagement report**

7. The review engagement report on financial statements for periods ending on or after December 14, 2010 prepared in accordance with pre-changeover accounting standards, including differential reporting options, will be in the form required by Section 8200. Paragraph 8200.51 requires that the review engagement report be presented as set out in *General Review Standards*, paragraphs 8100.26 and 8100.34, as appropriate, except that the scope paragraph should:
  - (a) indicate that the financial statements have been prepared in accordance with Canadian generally accepted accounting principles using differential reporting options available to non-publicly accountable enterprises; and
  - (b) (refer to the summary of accounting policies in the financial statements that describes each differential reporting option applied.

## Q&A 1(f) Early Adoption of a New Financial Reporting Framework and the Need for an Emphasis of Matter Paragraph

***When an entity early adopts a new financial reporting framework, should the auditor include an Emphasis of Matter paragraph in the auditor's report referring to the change in financial reporting framework?***

### Background

1. For audits of financial statements for periods ending before December 14, 2010, Part II of the CICA Handbook – Assurance applies. Section 5701, *Other Reporting Matters*, provides guidance on additional explanations in the auditor's report, but does not require use of Emphasis of Matter paragraphs.
2. For audits of financial statements for periods ending on or after December 14, 2010, Part I of the CICA Handbook – Assurance applies. Paragraph 6 of CAS 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, states that 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, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided the auditor has obtained sufficient appropriate audit evidence that the matter is not materially misstated in the financial statements.
3. Paragraph A1 of CAS 706 provides examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph. One example provided relates to the early application (where permitted) of a new accounting standard (for example, a new International Financial Reporting Standard) that has a pervasive effect on the financial statements in advance of its effective date.
4. When an entity early adopts a new financial reporting framework, this may have a pervasive effect on the entity's financial statements in advance of any required effective date to adopt a new financial reporting framework.

### The need for an Emphasis of Matter paragraph

5. The early adoption of a new financial reporting framework can be contrasted with the early adoption of a new accounting standard in the following ways:
  - (a) The entity's financial statements will contain additional disclosures not presented when an entity early adopts a new accounting standard, including:
    - (i) an opening balance sheet (statement of financial position) on the transition date; and
    - (ii) a reconciliation of certain key financial information reported in the entity's most recent previously issued

financial statements to the same information under the new financial reporting framework.

- (b) The auditor's report will refer to the new financial reporting framework and the opening balance sheet (statement of financial position) and, therefore, will be different from the auditor's report for the prior period.
6. Because of the more extensive presentation and disclosures in the financial statements on the early adoption of a new financial reporting framework, and the fact that the auditor's report will be different from the prior period, there is much less likelihood that the auditor will consider it necessary to draw users' attention to this matter through an Emphasis of Matter paragraph. Illustrative Reports in this Guide do not include such an Emphasis of Matter paragraph.

## **Q&A1(g) Referring to Canadian GAAP in the Auditor's Report on Financial Statements Prepared in Accordance With a New Financial Reporting Framework**

***Can an auditor's report on financial statements prepared in accordance with a new financial reporting framework in the CICA Handbook – Accounting also make reference to Canadian GAAP and, if so, how should this reference be made in the auditor's report?***

### **Background**

1. Incorporating or other governing legislation, or a contract, may require that an entity prepare its financial statements in accordance with Canadian GAAP. Canadian GAAP includes different financial reporting frameworks in Parts I to V of the CICA Handbook – Accounting. Consequently, when an entity makes reference to the specific financial reporting framework it has applied in preparing its financial statements, making a separate reference to Canadian GAAP might be viewed as redundant.
2. The Introductions to Parts I to IV of the CICA Handbook – Accounting indicate that an entity that prepares its financial statements in accordance with the respective part of the Handbook “is permitted, but not required, to make the additional statement that its financial statements are in accordance with Canadian GAAP.”<sup>4</sup> Further, some regulators, such as the Canadian Securities Administrators and the Office of the Superintendent of Financial Institutions, have indicated that they will not require such an additional statement in financial statements prepared by entities they regulate. It is the decision of the entity whether or not to specifically refer to Canadian GAAP. An entity may decide to demonstrate compliance not only with a specific financial reporting framework but also with Canadian GAAP. Auditors are required by paragraph 15 of CAS 700, *Forming an Opinion and Reporting on Financial Statements*, to evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework.
3. Irrespective of whether the entity decides to also disclose compliance with Canadian GAAP, it is the auditor's decision whether the auditor's report makes specific reference to Canadian GAAP. As long as the auditor's report makes reference to the financial reporting framework applied in preparing the financial statements (for example, in the manner set out in Illustrative Reports in this Guide), there is no need for the auditor's report to make specific reference to Canadian GAAP, unless the auditor considers that he or she is required to do so under regulation or legislation.
4. Auditors may decide to make specific reference to Canadian GAAP in the auditor's report to maintain consistency with how the entity describes the financial reporting framework in its financial statements. However, even when the entity does not make specific

<sup>4</sup> See, for example, Introduction to Part I, paragraph I.11 and Introduction to Part II, paragraph II.8 of the CICA Handbook – Accounting.



reference to Canadian GAAP in its financial statements, auditors may also decide to make specific reference to Canadian GAAP when they believe that it is important to readers of the auditor's report to know that in the auditor's opinion the financial statements comply with Canadian GAAP.

5. When referring specifically to Canadian GAAP, and when evaluating whether the financial statements adequately refer to or describe the applicable financial reporting framework in accordance with paragraph 15 of CAS 700, the auditor would consider whether the reference clearly sets out the relationship between Canadian GAAP and the financial reporting framework.
6. Paragraphs A8 and A32 of CAS 700 indicate that when the financial statements are prepared in accordance with two financial reporting frameworks the auditor's opinions may be expressed separately or in a single sentence (for example, "the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in Jurisdiction X and with IFRS"). This form of wording should not be used in Canada when referring to accounting standards in Parts I to V of the CICA Handbook – Accounting – for example, "Canadian accounting standards for private enterprises and Canadian generally accepted accounting principles" – as it might imply that the two are separate financial reporting frameworks, which is not the case. Further, referring to a financial reporting framework as "part of" Canadian GAAP may imply that the entity has not complied with all of Canadian GAAP.
7. The following sets out examples of descriptions of the financial reporting framework that clearly sets out the relationship between Parts I to IV of the CICA Handbook – Accounting and Canadian GAAP:
  - (a) For Part I of the CICA Handbook – Accounting: "International Financial Reporting Standards, which is one of the financial reporting frameworks included in Canadian generally accepted accounting principles."
  - (b) For Part II of the CICA Handbook – Accounting: "Canadian accounting standards for private enterprises, which is one of the financial reporting frameworks included in Canadian generally accepted accounting principles."
  - (c) For Part III of the CICA Handbook – Accounting: "Canadian accounting standards for not-for-profit organizations, which is one of the financial reporting frameworks included in Canadian generally accepted accounting principles."
  - (d) For Part IV of the CICA Handbook – Accounting: "Canadian accounting standards for pension plans, which is one of the financial reporting frameworks included in Canadian generally accepted accounting principles."
8. Such wording would ordinarily be placed in the opinion paragraph of the auditor's report. When the auditor's report includes a separate section dealing with other reporting responsibilities, as discussed in paragraphs 38 and 39 of CAS 700, the auditor may consider it to be more appropriate to include such wording in that separate section.



## **Q&A 1(h) The Review Engagement Report on the First Financial Statements Prepared in Accordance with Accounting Standards for Private Enterprises**

***Q&A 1(h)(i) What guidance does a practitioner use in considering the form of review engagement report on comparative information in the first financial statements prepared in accordance with accounting standards for private enterprises?***

1. For reviews of financial statements, Section 8200, *Public Accountant's Review of Financial Statements*, applies. Section 8200 also makes reference to Section 8100, *General Review Standards*.
2. Paragraph 8100.41 requires that when comparative figures are neither audited nor reviewed, and disclosure of such matters is not made in the information on which the public accountant reports, disclosure should be made in a separate and final paragraph of the review engagement report.
3. Neither Section 8100 nor Section 8200 provides guidance dealing with comparative information and its effect on the review engagement report. Therefore, practitioners may refer to Q&As 1(d) and 2(a) in this Guide that deal with comparative information in the context of the auditor's report. Similar principles apply in the context of a review engagement. The application of Q&As 1(d) and 2(a) to review engagements is discussed further below.

***Q&A 1(h)(ii) How does the practitioner apply the guidance in Q&As 1(d) and 2(a) in this Guide to the review engagement report on the first financial statements under accounting standards for private enterprises?***

4. The guidance in Q&As 1(d) and 2(a) is relevant to deciding on the form of review engagement report with respect to the first financial statements under accounting standards for private enterprises. These standards contain transition provisions requiring comparative information, including related notes to be presented. For example, for an entity with a calendar year end, the entity's first financial statements prepared in accordance with accounting standards for private enterprises would include a balance sheet as at:
  - (a) December 31, 2011;
  - (b) December 31, 2010; and
  - (c) January 1, 2010 (opening balance sheet prepared in accordance with accounting standards for private enterprises).

**Reporting on the first financial statements on the transition to accounting standards for private enterprises when the review engagement report refers to the current period only**

5. While the practitioner may have reviewed the financial statements for the years ended December 31, 2010 and December 31, 2009 prepared in accordance with the pre-changeover accounting standards, the practitioner will not have previously reviewed the financial statements for those periods prepared in accordance with accounting standards for private enterprises.

6. When the practitioner's report refers to the current period only, using the reporting approach for corresponding figures discussed in Q&A 2(a), there may be an incorrect presumption by readers of the practitioner's report on the first financial statements prepared in accordance with accounting standards for private enterprises that the practitioner has previously issued a review engagement report on the comparative information.
7. Unless the practitioner has been specifically engaged to perform an audit or a review of the December 31, 2010 financial statements and the January 1, 2010 opening balance sheet prepared in accordance with accounting standards for private enterprises, these financial statements are not audited or reviewed.
8. There are two possible courses of action:
  - (a) The practitioner can be engaged to issue only a review engagement report on the current period's financial statements. In such a case, the comparative information is presented in the form of corresponding figures and the practitioner complies with paragraph 8100.41 as discussed in Q&A 1(h)(i). Disclosure that the comparative information was neither audited nor reviewed should be made in a separate and final paragraph of the review engagement report unless disclosure of such matters is made in the financial statements. (See Illustrative Report 2(b) in this Guide when the practitioner's report does not extend to the corresponding figures and such disclosure in the financial statements is not made.)
  - (b) Alternatively, the practitioner may discuss with the entity whether the terms of the engagement need to extend to all financial statement periods presented. In such a case, the comparative information is presented in the form of comparative financial statements and the review engagement report extends to each financial statement period presented. (Refer to paragraphs 9-12 in this Q&A.)

**Reporting on first financial statements on transition to accounting standards for private enterprises when the review engagement report refers to each period for which financial statements are presented**

9. The practitioner may have agreed to undertake an engagement to report on all financial statements presented, when such financial statements are prepared in accordance with accounting standards for private enterprises. If so, the practitioner is required to issue a review engagement conclusion on all three balance sheets and two operating periods prepared in accordance with accounting standards for private enterprises, using the reporting approach for comparative financial statements discussed in Q&A 2(a).
10. While the practitioner may have reviewed the financial statements for the years ended December 31, 2010 and December 31, 2009 prepared in accordance with the pre-changeover accounting standards, the practitioner will not have previously reviewed the financial statements for those periods prepared in accordance with accounting standards for private enterprises.

11. When reporting on the first financial statements for 2011 prepared in accordance with accounting standards for private enterprises, the practitioner will be reporting on the December 31, 2010 financial statements and the January 1, 2010 opening balance sheet prepared in accordance with accounting standards for private enterprises for the first time. Accordingly, the practitioner will be required to perform sufficient procedures to support the conclusion expressed in his or her review engagement report on those financial statements.
12. The practitioner is able to use the work performed in reviewing the financial statements for the years ended December 31, 2010 and December 31, 2009 prepared in accordance with pre-changeover accounting standards. However, because the comparative financial statements are prepared in accordance with accounting standards for private enterprises, the practitioner will have to perform additional procedures to support the conclusion in the review engagement report on those financial statements, even when the financial statements prepared in accordance with accounting standards for private enterprises do not appear to be significantly different from those prepared in accordance with pre-changeover accounting standards.

## QUESTIONS & ANSWERS ON OTHER REPORTING MATTERS

### Q&A 2(a) Comparative Information and Its Effect on the Auditor's Report

***What is the difference between “comparative financial statements” and “corresponding figures” under the CASs?***

1. CAS 710, *Comparative Information – Corresponding Figures and Comparative Financial Statements*, 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.
2. Most financial reporting frameworks require that comparative financial 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.
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 pre-changeover standards. *Property, Plant & Equipment*, paragraph 3061.38 in Part V of the CICA 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 pre-changeover accounting standards (for example, 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).

4. There are two different audit reporting approaches in respect of 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.
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 information should be in the form of comparative financial statements. For most other entities, the auditor's opinion on the financial statements refers to the current period only and the comparative information provided is in the form of corresponding figures, unless the auditor is otherwise specifically engaged to report on each period for which financial statements are presented.
6. Accordingly, it is possible that the auditor's report on financial statements of two identical entities using identical financial reporting frameworks could differ depending on whether the comparative information is presented as corresponding figures or comparative financial statements. This is generally because with corresponding figures the disclosures are likely to be less than the disclosures in comparative financial statements.
7. Paragraphs 7-9 of CAS 710 require the auditor to perform the same audit procedures for both approaches (for example, to determine whether the financial statements include the comparative information required by the applicable financial reporting framework and whether such information is appropriately classified.)

## Q&A 2(b) Alerting Readers that the Financial Statements Are Prepared in Accordance with a Special Purpose Framework

***How should the auditor's report alert readers that the financial statements are prepared in accordance with a special purpose framework?***

### **Background**

1. CAS 800, *Special Considerations — Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, 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 framework. A special purpose 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 framework.
2. Paragraph A14 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 auditor's 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 in an Emphasis of Matter paragraph under an appropriate heading.
3. Paragraph A15 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 auditor's report is intended solely for the specific users. This may be achieved by restricting the distribution or use of the auditor's report.
4. Therefore, there are four possible types of paragraph that the auditor may use to alert readers under CAS 800. The following are examples of the different types of possible wording (underlining has been used to identify differences in the wording):
  - (a) When the auditor does not consider it necessary to restrict either distribution or use:

#### ***Basis of Accounting***

Without modifying our opinion, we draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist ABC Company to comply with the financial reporting provisions of the contract between ABC Company and DEF Company. As a result, the financial statements may not be suitable for another purpose.

- (b) When the auditor considers it necessary to restrict use:

#### ***Basis of Accounting and Restriction on Use***

Without modifying our opinion, we draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist

ABC Company to comply with the financial reporting provisions of the contract between ABC Company and DEF Company. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for ABC Company and DEF Company and should not be used by parties other than ABC Company or DEF Company.

- (c) When the auditor considers it necessary to restrict distribution:

***Basis of Accounting and Restriction on Distribution***

Without modifying our opinion, we draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist ABC Company to comply with the financial reporting provisions of the contract between ABC Company and DEF Company. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for ABC Company and DEF Company and should not be distributed to parties other than ABC Company or DEF Company.

- (d) When the auditor considers it appropriate to restrict both distribution and use:

***Basis of Accounting and Restriction on Distribution and Use***

Without modifying our opinion, we draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist ABC Company to comply with the financial reporting provisions of the contract between ABC Company and DEF Company. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for ABC Company and DEF Company, and should not be distributed to or used by parties other than ABC Company or DEF Company.

5. The Illustrative Reports on special purpose financial statements in this Guide include an Emphasis of Matter paragraph that restricts the use of the auditor's report (example (b) above).



## Q&A 2(c) The Form of Auditor's Report on Financial Statements Prepared in Accordance with Different General Purpose Frameworks

***What is the form and content of the auditor's report on financial statements that are prepared using a different general purpose financial reporting framework?***

### Background

1. This Q&A addresses the form of the auditor's 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 CICA Handbook – Accounting or the CICA Public Sector Accounting Handbook;
  - (b) financial statements prepared in accordance with a financial reporting framework in the CICA Handbook – Accounting that is not designed for that type of entity;
  - (c) financial statements for a specific purpose 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).
2. In the discussion of each circumstance in this Q&A, it has been assumed that the auditor has determined the applied financial reporting framework to be acceptable in accordance with paragraph 6(a) of CAS 210, *Agreeing the Terms of Audit Engagements*, unless otherwise indicated.
3. Reference is also made in this Q&A to the following paragraphs in CAS 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*:
  - (a) paragraph A8, which indicates that the auditor may include an Other Matter paragraph in the auditor's 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 a report on those financial statements; and
  - (b) paragraph A9, which indicates that in circumstances where financial statements are prepared for a specific purpose using a general purpose framework, since the auditor's report is intended for specific users, the auditor may consider it necessary in the circumstances to include an Other Matter paragraph stating that the auditor's report is intended solely



for the intended users, and should not be distributed to or used by other parties. Therefore, the auditor may add such an Other Matter paragraph to the auditor's report. Financial statements prepared for a specific purpose are distinguished from special purpose financial statements that, as defined in paragraph 6(a) of CAS 800, *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, are financial statements prepared in accordance with a special purpose framework.

4. In the circumstances where the entity prepares special purpose financial statements, and management has a choice of financial reporting frameworks in the preparation of such financial statements, paragraph 13(b) of CAS 800, requires that the explanation in the auditor's report of management's responsibility for the financial statements also make reference to its responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances.
5. 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, as required by paragraph 19 of CAS 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*. 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 CICA Handbook – Accounting or the CICA Public Sector Accounting Handbook**

6. 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.
7. A financial reporting framework other than the financial reporting frameworks in the CICA Handbook – Accounting or the CICA Public Sector Accounting Handbook may be acceptable in certain circumstances, however. Examples where a financial reporting framework other than the financial reporting frameworks in the CICA Handbook – Accounting or the CICA Public Sector Accounting Handbook may be acceptable for general purpose

financial statements would be when legislation or regulation permits an entity to report in accordance with US GAAP. In these circumstances, the form of the auditor's report would be in accordance with CAS 700, *Forming an Opinion and Reporting on Financial Statements*.

8. It is possible that such an entity may prepare two sets of financial statements for general purposes, one prepared in accordance with a financial reporting framework in the CICA Handbook – Accounting or the CICA Public Sector Accounting Handbook and one set prepared in accordance with a different 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 3(a) of this Q&A.
9. In determining whether the applicable financial reporting framework is acceptable for the engagement under CAS 210, *Agreeing the Terms of Audit Engagements*, the auditor may determine that the financial statements are prepared for a specific purpose. In addition, the auditor may consider adding an Other Matter paragraph to the auditor's report stating that the auditor's report is intended solely for the intended users, and should not be distributed to or used by other parties, as discussed in paragraph 3(b) of this Q&A.

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

10. As discussed in paragraph 6 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 CICA 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-IV of the CICA Handbook – Accounting may only be applied by entities that meet the definitions of entities for which these financial reporting frameworks have been designed.
11. In some circumstances, an entity may request an auditor to report on financial statements prepared in accordance with a 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 would identify the purpose of the financial statements, the intended users and the steps taken by management to determine that the applicable financial reporting framework is acceptable. If the financial statements prepared in accordance with such a framework are intended as the

entity's general purpose financial statements, the auditor would not accept an engagement to report on such financial statements because such a financial reporting framework is not an acceptable framework for general purpose financial statements for that type of entity. However, if such financial statements are prepared for a specific purpose (for example, to meet the needs of a particular stakeholder), such a financial reporting framework may be an acceptable special purpose framework. In this case, the auditor would report in accordance with CAS 800.

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

12. An entity may prepare financial statements for a specific purpose 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 1590.15 in Part II of the CICA Handbook – Accounting) to meet the expressed needs of a bank and the income tax authorities.
13. 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 framework. When financial statements are prepared for a specific purpose in accordance with a general purpose framework, the financial statements do not meet the definition of special purpose financial statements in CAS 800.
14. Although the financial statements are prepared for a specific purpose, the auditor would report 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 auditor's report is intended solely for the intended users, and should not be distributed to or used by other parties referred to in paragraph 3(b) of this Q&A.
15. See Illustrative Report 3(d) in this Guide for an example of an auditor's report on financial statements prepared for a specific purpose 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**

16. Some general purpose financial reporting frameworks permit an entity to prepare both consolidated financial statements and non-consolidated financial statements for general purposes and indicate that they have been prepared in accordance with the financial reporting framework. See, for example, IAS 27 *Consolidated and Separate Financial Statements* in Part I of the CICA Handbook – Accounting.

17. In this circumstance, the auditor would report on each set of financial statements in accordance with CAS 700. The financial statements would be labelled in the auditor's report in the same manner in which they are required to be labelled by the financial reporting framework. Where the financial reporting framework does not contain specific labelling requirements, the auditor would generally describe the financial statements as being "consolidated" financial statements and "non-consolidated" financial statements (or a similar term), respectively.
18. 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 3(a) of this Q&A to the auditor's 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 auditor's report on consolidated (separate) financial statements when an entity also prepares separate (consolidated) financial statements under IAS 27 *Consolidated and Separate Financial Statements*:

*Other Matter*

ABC Company has prepared a non-consolidated (consolidated) set of financial statements for the year ended December 31, 2011 in accordance with International Financial Reporting Standards on which we issued an auditor's report to the shareholders of ABC Company dated March 31, 2012.

**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)**

19. 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.
20. In some circumstances, an entity may prepare additional sets of financial statements using alternative accounting policies that are also in accordance with a particular 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 1590.15(a) in Part II of the CICA 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 1590.15(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 CICA 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).

21. In accepting an engagement to report on two sets of financial statements prepared in accordance with different accounting policy choices within the same financial reporting framework, the auditor would request 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 purpose. Generally, the general purpose set of financial statements would be 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 would report on these financial statements in accordance with CAS 700. The auditor would report on additional sets of financial statements prepared in accordance with the same financial reporting framework in accordance with paragraphs 12-15 of this Q&A on the basis that the financial statements are prepared for a specific purpose in accordance with a general purpose framework. The auditor may consider adding either or both of the Other Matter paragraphs referred to in paragraphs 3 of this Q&A.

## Q&A 2(d) Fair Presentation versus Compliance Financial Reporting Frameworks

**Q&A 2(d)(i) How does the auditor determine whether a financial reporting framework is a fair presentation or a compliance framework?**

### Background

1. Paragraph 13(a) of CAS 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Canadian Auditing Standards*, 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>5</sup>
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(a) or (b) of this Q&A.
3. While the definition of a fair presentation framework in CAS 200 may appear straightforward, in certain circumstances, the auditor may have to use professional judgment in deciding when a financial reporting framework should be considered a fair presentation framework.
4. The distinction between a fair presentation framework and a compliance framework is important, for example:
  - (a) Paragraph 14 of CAS 700, *Forming an Opinion and Reporting on Financial Statements*, 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
    - (ii) whether the financial statements, including the related notes, 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.

<sup>5</sup> Paragraph 19 of IAS 1 *Presentation of Financial Statements* in Part I of the CICA Handbook – Accounting contains such an acknowledgement; however, Parts II-V do not.

- (c) Paragraph 27 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 auditor’s report shall refer to “the preparation and fair presentation of these financial statements” or “the preparation of financial statements that give a true and fair view,” as appropriate in the circumstances.
- (d) Paragraph 32 of CAS 700 states that where the financial statements are prepared in accordance with a fair presentation framework, the description of the audit in the auditor’s report shall refer to “the entity’s preparation and fair presentation of the financial statements” or “the entity’s preparation of financial statements that give a true and fair view”, as appropriate in the circumstances.
- (e) Paragraph 35 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 financial statements present fairly, in all material respects, ... in accordance with [the applicable financial reporting framework]; or
  - (ii) the financial statements give a true and fair view of ... in accordance with [the applicable financial reporting framework].
- (f) Paragraph 36 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 financial statements are prepared, in all material respects, in accordance with [the applicable financial reporting framework].

Other CASs may also identify different consequences for the auditor and the auditor’s 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**

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 CICA Handbook – Accounting and the CICA Public Sector Accounting Handbook.
6. When, for example, a 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;
 the framework is not necessarily a fair presentation framework.



7. It is a necessary feature of a fair presentation framework that it include one of the acknowledgments referred to in paragraph 1 of this Q&A. When a financial reporting framework is based on a financial reporting framework discussed in paragraph 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 the CICA Handbook – Accounting as follows:
- (a) IAS 1 *Presentation of Financial Statements*, paragraphs 15, 17(c) and 19-24 in Part I;
  - (b) *General Standards of Financial Statement Presentation*, paragraphs 1400.03-.06 in Part II;
  - (c) *General Standards of Financial Statement Presentation*, paragraphs 1401.03-.06 in Part III;
  - (d) *Pension Plans*, Section 4600 of Part IV 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) *General Standards of Financial Statement Presentation*, paragraphs 1400.03-.07 in Part V.

For entities that apply Canadian public sector accounting standards, the acknowledgements can be found in *Financial Statement Presentation*, paragraphs PS 1200.012-.014 in the CICA Public Sector Accounting Handbook.

When a financial reporting framework is not based on a financial reporting framework discussed in paragraph 5 of this Q&A it is much less likely that such a framework contains such acknowledgments.

8. However, the CASs recognize that even when a framework does contain the acknowledgments referred to in paragraph 1 of this Q&A, this is not necessarily sufficient for the financial reporting framework to be a fair presentation framework. For example, paragraph 19 of CAS 210, *Agreeing the Terms of Audit Engagements*, states that when the auditor has determined that a 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 certain conditions are present, including that the auditor's opinion on the financial statements not include the phrase "present fairly, in all material respects," (i.e., the auditor reports as if the financial reporting framework is a compliance framework even if the framework contained one of the acknowledgments referred to in paragraph 1 of this Q&A). Similarly, paragraph A3 of CAS 800, *Special Considerations — Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, 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.

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 would 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 not designed to present the financial position, results of operations and cash flows of an incorporated entity. For example, 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 with regulatory rules, 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.

## Q&A 2(e) Emphasis of Matter and Other Matter Paragraphs in the Auditor's Report

***When must the auditor include an Emphasis of Matter or Other Matter paragraph in the auditor's report and what are the considerations in deciding whether to include such a paragraph?***

### Background

1. Paragraph 5 of CAS 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, defines Emphasis of Matter and Other Matter paragraphs as follows:
  - (a) Emphasis of Matter paragraph — A paragraph included in the auditor's 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 auditor's 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 auditor's report.

### Emphasis of Matter paragraphs

2. 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 6 of CAS 706 limits the use of an Emphasis of Matter paragraph to matters presented or disclosed in the financial statements.
3. Appendix 1 of CAS 706 identifies other CASs that require the auditor to include an Emphasis of Matter paragraph in the auditor's report in certain circumstances. These CASs are as follows:
  - (a) CAS 210, *Agreeing the Terms of Audit Engagements* — paragraph 19(b);
  - (b) CAS 560, *Subsequent Events* — paragraphs 12(b) and 16;
  - (c) CAS 570, *Going Concern* — paragraph 19; and
  - (d) CAS 800, *Special Considerations — Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks* — paragraph 14.
4. Outside of the specific requirements to include an Emphasis of Matter paragraph in the auditor's report referred to in paragraph 3 of this Q&A, the use of such a paragraph is a matter of the auditor's professional judgment. Paragraph 6 of CAS 706 requires the auditor to include an Emphasis of Matter paragraph in the auditor's 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.
5. Paragraph A1 of CAS 706 provides the following examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph:

- (a) an uncertainty relating to the future outcome of exceptional litigation or regulatory action;
  - (b) early application (where permitted) of a new accounting standard (for example, a new International Financial Reporting Standard) that has a pervasive effect on the financial statements in advance of its effective date; and
  - (c) a major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.
6. Furthermore, the CASs also include application and explanatory material referring to the use of an Emphasis of Matter paragraph, for example:
  - (a) CAS 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures* – paragraph A114;
  - (b) CAS 570, *Going Concern* – paragraphs A22 and A26;
  - (c) CAS 700, *Forming an Opinion and Reporting on Financial Statements* – paragraph A33(b);
  - (d) CAS 710, *Comparative Information – Corresponding Figures and Comparative Financial Statements* – paragraphs A6 and A8; and
  - (e) CAS 805, *Special Considerations – Audits of Single Financial Statements and Special Elements, Accounts or Items of a Financial Statement* – paragraph 14.
7. Paragraph A2 of CAS 706 indicates that a widespread use of Emphasis of Matter paragraphs diminishes the effectiveness of the auditor's communication of such matters.
8. Before including such a paragraph, the auditor is required to obtain sufficient appropriate audit evidence that the matter is not materially misstated in the financial statements. Further, paragraph A3 of CAS 706 indicates that such a paragraph is not a substitute for either:
  - (a) the auditor expressing a qualified opinion or an adverse opinion, or disclaiming an opinion, when required by the circumstances of a specific audit engagement; or
  - (b) disclosures in the financial statements that the applicable financial reporting framework requires management to make.
9. Paragraph 8(c) of CAS 230, *Audit Documentation*, 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.
10. Paragraph 7 of CAS 706 requires that when the auditor includes an Emphasis of Matter paragraph in the auditor's report the auditor shall:
  - (a) include it immediately after the Opinion paragraph in the auditor's report;
  - (b) use the heading "Emphasis of Matter," or other appropriate heading;

- (c) include in the paragraph a clear reference to the matter being emphasized and, where relevant, to disclosures that fully describe the matter can be found in the financial statements; and
- (d) indicate that the auditor's opinion is not modified in respect of the matter emphasized.

#### Other Matter paragraphs

11. Appendix 2 of CAS 706 identifies other CASs that require the auditor to include an Other Matter paragraph in the auditor's report in certain circumstances. These CASs are as follows:
  - (a) CAS 560, *Subsequent Events* – paragraphs 12(b) and 16;
  - (b) CAS 710, *Comparative Information – Corresponding Figures and Comparative Financial Statements* – paragraphs 13-14, 16-17 and 19; and
  - (c) CAS 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements* – paragraph 10(a).
12. Outside of the specific requirements to include an Other Matter paragraph in the auditor's report referred to in paragraph 11 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 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 auditor's report and this is not prohibited by law or regulation, the auditor include an Other Matter paragraph in the auditor's report.
13. CAS 706 includes the following examples of circumstances in which an Other Matter paragraph may be necessary:
  - (a) 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.
  - (b) 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 auditor's report.
  - (c) Where an entity prepares financial statements for a specific purpose in accordance with a general purpose framework as discussed in Q&A 2(c) of this Guide.
  - (d) Where an entity prepares more than one set of financial statements as discussed in Q&A 2(c) of this Guide.
14. Furthermore, the CICA Handbook – Assurance also includes application and explanatory material referring to the use of an Other Matter paragraph, for example:
  - (a) CAS 250, *Consideration of Laws and Regulations in an Audit of Financial Statements* – paragraph A18;
  - (b) CAS 705, *Modifications to the Opinion in the Independent Auditor's Report* – paragraph A14;
  - (c) CAS 710, *Comparative Information – Corresponding Figures and Comparative Financial Statements* – paragraph A11;

- (d) CAS 805, *Special Considerations – Audits of Single Financial Statements and Special Elements, Accounts or Items of a Financial Statement* – paragraph A17;
  - (e) Section 5925, *An Audit of Internal Control Over Financial Reporting that Is Integrated with an Audit of Financial Statements* – paragraph 5925.A83; and
  - (f) Canadian Standard on Assurance Engagements (CSAE) 3416, *Reporting on Controls at a Service Organization* – paragraph A71.
15. Paragraph 8 of CAS 706 requires that when the auditor includes an Other Matter paragraph in the auditor’s report, the auditor shall include this paragraph, with the heading “Other Matter,” or other appropriate heading, immediately after the Opinion paragraph and any Emphasis of Matter paragraph, or elsewhere in the auditor’s report if the content of the Other Matter paragraph is relevant to the Other Reporting Responsibilities section.
16. Paragraph A7 of CAS 706 indicates that 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 38 and 39 of CAS 700 contain requirements for other reporting responsibilities. See for example, Assurance and Related Services Guideline AuG-10, *Legislative Requirements to Report on the Consistent Application of Accounting Principles in the Applicable Financial Reporting Framework*.

## Q&A 2(f) Dating of the Practitioner's Report

### **Q&A 2(f)(i) On what date must the auditor date the auditor's report?**

1. The requirements in the CASs are different than the requirements that apply for audits of financial statement for periods prior to December 14, 2010. These latter requirements indicate that the date of substantial completion of examination should be used as the date of the auditor's report (see *Date of the Auditor's Report*, paragraph 5405.06) and that the engagement quality control review (EQCR) should be completed before the issuance of the practitioner's report (see *Quality Control Procedures for Assurance Engagements*, paragraph 5030.43(c)).
2. Rather, paragraph 41 of CAS 700, *Forming an Opinion and Reporting on Financial Statements*, requires that the auditor's 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 that comprise the financial statements, including the related notes, have been prepared; and
  - (b) those with the recognized authority have asserted that they have taken responsibility for those financial statements.
3. Even when the auditor has obtained audit evidence concerning (a) and (b) in paragraph 2 of this Q&A, the auditor may still not be able to date the auditor's 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 application of the entity's accounting policies in accordance with applicable financial reporting framework and the adequacy of disclosures in the financial statements.
4. Paragraph 19 of CAS 220, *Quality Control for an Audit of Financial Statements*, requires that, for audits of listed entities, and those other audit engagements, if any, for which the firm has determined that an EQCR is required, the engagement partner shall not date the auditor's report until completion of the EQCR.
5. Paragraph 17 of CAS 220 requires that, on or before the date of the auditor's 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 auditor's report to be issued.

### **Q&A 2(f)(ii) When have all the statements that comprise the financial statements, including the related notes, been prepared?**

6. Paragraph 4 of CAS 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Canadian Auditing Standards*, states that an audit is conducted on the premise that management and, where appropriate, those charged with governance have acknowledged certain responsibilities



that are fundamental to the conduct of the audit. 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 to or disclosure in the financial statements, when such events have been recognized or disclosed in the financial statements.

7. 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 auditor's 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.
8. As explained in paragraph A23 of CAS 210, *Agreeing the Terms of Audit Engagements*, 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 auditor's report to the date the financial statements are issued. Paragraph 9 of CAS 560, *Subsequent Events*, requires the auditor to request management and, where appropriate, those charged with governance to provide a written representation in accordance with CAS 580, *Written Representations*, 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 auditor's report on the financial statements. In the circumstances where the date of the auditor's report is significantly later than the date on which those with the recognized authority took responsibility for the financial statements, the auditor will 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 auditor's report.

**Q&A 2(f)(iii) In Canada, who are “those with the recognized authority”?**

9. Paragraph A40 of CAS 700 indicates that in some jurisdictions, law or regulation identifies the individuals or bodies (for example, management or those charged with governance) that are responsible for concluding that all the statements that comprise

the financial statements, including the related notes, have been prepared, and discusses the approval process.

10. In Canada, most incorporating or other governing legislation recognizes the board of directors as having the power to approve the financial statements.<sup>6</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>7</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.
11. Some legislation may require that the financial statements be approved by the shareholders or other equivalent body. In this case, paragraph A41 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 all the statements that comprise the financial statements, including the related notes, have been prepared and those with the recognized authority have asserted that they have taken responsibility for those financial statements.
12. 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 auditor's 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.
13. For entities whose legislation does not prescribe the approval process for the financial statements, paragraph A40 of CAS 700 indicates that the entity follows its own procedures in preparing and finalizing its financial statements in view of its management and governance structures. In this circumstance, the auditor would discuss with those charged with governance who have the recognized authority to take responsibility for the financial statements.

***Q&A 2(f)(iv) How does the auditor date the auditor's report when a fact becomes known to the auditor after the date of the auditor's report and before the date the financial statements are issued?***

14. Paragraph 11 of CAS 560 states that if management amends the financial statements as a result of a subsequent event that became known after the date of the auditor's report, the auditor must carry out audit procedures necessary with respect to the amendment and, unless the circumstances in paragraph 12 apply, provide a new auditor's report. Paragraph 12 of CAS 560 states that where law,

<sup>6</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>7</sup> See, for example, subsection 115(3)(i) of the Canada Business Corporations Act.



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, the auditor shall either:

- (a) amend the auditor's report to include an additional date restricted to that amendment that thereby indicates that the auditor's procedures on subsequent events are restricted solely to the amendment of the financial statements described in the relevant note to the financial statements; or
- (b) provide a new or amended auditor's report that includes a statement in an Emphasis of Matter paragraph or Other Matter paragraph that conveys that the auditor's procedures on subsequent events are restricted solely to the amendment of the financial statements as described in the relevant note to the financial statements.

15. The auditor would consider law, regulation or the financial reporting framework in deciding whether there is such a prohibition. In Canada, Parts II-V of the CICA 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 current practice. With respect to IFRSs in Part I of the CICA Handbook – Accounting, research by CICA accounting standards staff indicates that practice globally is not consistent. In most jurisdictions, when management amends the financial statements for a subsequent event it will search for and update the financial statements for any other subsequent events to the date of the amending subsequent event and those responsible for approving the financial statements update their approval to this date. However, in other jurisdictions, while that is the normal practice, there are exceptions in rare circumstances, where management will restrict the amendment to the financial statements to the effect of the subsequent event and those responsible for approving the financial statements restrict their approval to that amendment.
16. The auditor has three methods available for dating the auditor's report when the financial statements are amended after the original date of the auditor's report:
  - (a) Issue a new report in accordance with paragraph 11 of CAS 560 (new report date). Where the auditor issues a new auditor's report in accordance with paragraph 11 of CAS 560, the auditor's responsibility for events subsequent to the original report date extends to the new date of the auditor's report.
  - (b) Issue an amended report in accordance with paragraph 12(a) of CAS 560 (dual-dated report).
  - (c) Issue a new or amended report, with a new report date, with an Emphasis of Matter paragraph in accordance with paragraph 12(b) of CAS 560 (new report date with Emphasis of Matter

limiting responsibility).

For methods (b) and (c), the auditor's responsibility for events occurring subsequent to the original report date is limited to the specific event described in the relevant note to the financial statements.

17. The following is an example of an Emphasis of Matter paragraph when there is a new report date with an Emphasis of Matter paragraph as discussed in paragraph 15 of this Q&A:

*Subsequent Event*

Without modifying our opinion, we draw attention to Note X to the financial statements which describes the subsequent event that gave rise to the amendment of the financial statements on March 15, 2011, the date of our auditor's report. Our procedures with respect to events subsequent to February 28, 2011 are restricted solely to that amendment to the financial statements.

**Q&A 2(f)(v) When does the public accountant date the review engagement report on financial statements?**

18. *General Review Standards*, paragraph 8100.30, indicates that the date of substantial completion of the review would be used as the date of the review engagement report. However, the guidance on the concept of "substantial completion" is minimal. Assurance and Related Services Guideline AuG-47, *Dating the Review Engagement Report on Financial Statements*, provides guidance on applying the concept in a review engagement to report on financial statements. Its intent is to adopt similar concepts for dating the report as in CAS 700.
19. AuG-47 explains that the public accountant would not date his or her report before he or she has:
- (a) obtained, through inquiry and discussion management's verbal representations, in advance of obtaining management's written representations, in respect to:
    - (i) management's acknowledgment of its responsibility for the fair presentation of the financial statements; and
    - (ii) management's belief that the financial statements are complete and presented fairly; and
  - (b) performed sufficient procedures to support the content of his or her report.

## ILLUSTRATIVE REPORTS

### INTRODUCTION TO ILLUSTRATIVE REPORTS

1. These Illustrative Reports reflect the principles discussed in Q&A 1(b) of this Guide.
2. The transition provisions in certain parts of the CICA Handbook – Accounting require that the financial statements in the first year of adoption of a new financial reporting framework contain an opening statement of financial position. For example, for an entity with a calendar year end, the entity's first financial statements would include the entity's statements of financial position as at:
  - (a) December 31, 2011;
  - (b) December 31, 2010; and
  - (c) January 1, 2010 (opening statement of financial position).

The effective date for adoption of International Financial Reporting Standards (IFRSs) and accounting standards for private enterprises is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted. Illustrative Reports indicate whether the financial statements are prepared in accordance with IFRSs or accounting standards for private enterprises on their effective date or whether these accounting standards have been early adopted. Illustrative Reports, based on the calendar periods referred to above, would also be appropriate in circumstances where an entity transitions to a new financial reporting framework at later dates, with appropriate changes to the dates in the reports.

3. Illustrative Reports may differ depending on whether the auditor's report extends to the comparative information in the financial statements and whether the auditor's report is prepared in accordance with the reporting requirements of Part I or Part II of the CICA Handbook – Assurance. Q&As 1(d) and 2(a) in this Guide discusses comparative information and the audit reporting differences under the CASs depending on whether the auditor's opinion on the financial statements refers to the current period only or to each period for which financial statements are presented.
4. Illustrative Reports have been grouped together into similar topics.
5. Underlining has been used, where appropriate, to help readers identify differences in the wording of the Illustrative Reports.

## FIRST FINANCIAL STATEMENTS UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS

### **1(a) IFRSs Are Adopted for Financial Statement Periods Ending Prior to December 14, 2010 – Auditor's Report Refers to Each Period for which Financial Statements Are Presented**

- **The financial statement period for the first financial statements under IFRSs is the year ended December 31, 2009**
- **The auditor's report refers to each period for which financial statements are presented**
- **The audit is conducted in accordance with Canadian GAAS prior to the effective date of the CASs**

**(Please read Introduction to Illustrative Reports)**

1. The entity's first IFRS financial statements would include the entity's statement of financial position as at:
  - (a) December 31, 2009;
  - (b) December 31, 2008; and
  - (c) January 1, 2008 (opening IFRS statement of financial position).
2. The auditor may have performed an audit of the entity's financial statements prepared in accordance with pre-changeover accounting standards for the years ended December 31, 2008 and December 31, 2007. However, these financial statements are not included in the first financial statements of the entity prepared in accordance with IFRSs. Rather, the first IFRS financial statements include the financial statements for the year ended December 31, 2008 and the January 1, 2008 opening statement of financial position prepared in accordance with IFRSs. Unless specifically engaged to do so, the auditor will not have audited and reported on these financial statements. Accordingly, in order for the auditor's report to refer to each period for which financial statements are presented, the auditor would need to audit the financial statements for the year ended December 31, 2008 and the January 1, 2008 opening statement of financial position prepared in accordance with IFRSs.
3. Section 5400, *The Auditor's Standard Report*, requires that in the opinion paragraph the auditor express his or her opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the entity in accordance with Canadian GAAP. (Refer to Q&A 1(b) in this Guide for guidance on the form of opinion.)
4. This Illustrative Report is based on Example A in Assurance and Related Services Guideline AuG-8, *Auditor's Report on Comparative Financial Statements*, which provides guidance when the auditor's report is extended to the comparative financial statements.

## AUDITOR'S REPORT

[Appropriate Addressee]

We have audited the statements of financial position of ABC Company as at December 31, 2009, December 31, 2008 and January 1, 2008, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended December 31, 2009 and December 31, 2008. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of ABC Company as at December 31, 2009, December 31, 2008 and January 1, 2008, and its financial performance and its cash flows for the years ended December 31, 2009 and December 31, 2008 in accordance with International Financial Reporting Standards.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

**1(b) IFRSs Are Adopted on the Effective Date — Auditor's Report Refers to Each Period for which Financial Statements Are Presented**

- **The financial statement period for the first financial statements under IFRSs is the year ended December 31, 2011**
- **The auditor's report refers to each period for which financial statements are presented**
- **The audit is conducted in accordance with Canadian Auditing Standards**

**(Please read Introduction to Illustrative Reports)**

1. The entity's first IFRS financial statements would include the entity's statements of financial position as at:
  - (a) December 31, 2011;
  - (b) December 31, 2010; and
  - (c) January 1, 2010 (opening IFRS statement of financial position).
2. The auditor may have performed an audit of the entity's financial statements prepared in accordance with pre-changeover accounting standards for the years ended December 31, 2010 and December 31, 2009. However, these financial statements are not included in the first financial statements of the entity prepared in accordance with IFRSs. Rather, the first IFRS financial statements include the financial statements for the year ended December 31, 2010 and the January 1, 2010 opening statement of financial position prepared in accordance with IFRSs. Unless specifically engaged to do so, the auditor will not have audited and reported on these financial statements. Accordingly, in order for the auditor's report to refer to each period for which financial statements are presented, the auditor would need to audit the financial statements for the year ended December 31, 2010 and the January 1, 2010 opening statement of financial position prepared in accordance with IFRSs.
3. Under paragraph 6(c) of CAS 710, *Comparative Information — Corresponding Figures and Comparative Financial Statements*, the comparative information is "comparative financial statements". Comparative financial statements are included for comparison with the financial statements of the current period. The level of information included in those comparative financial statements is comparable with that of the financial statements of the current period. This Illustrative Report is based on Illustration 4 in CAS 710.

#### INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

We have audited the accompanying financial statements of ABC Company, which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of ABC Company as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

**1(c) IFRSs Are Adopted on the Effective Date — Auditor's Report Refers to the Current Period Only**

- **The financial statement period for the first financial statements under IFRSs is the year ended December 31, 2011**
- **The auditor's report refers to the current period only**
- **The audit is conducted in accordance with Canadian Auditing Standards**

**(Please read Introduction to Illustrative Reports)**

1. The entity's first IFRS financial statements would include the entity's statements of financial position as at:
  - (a) December 31, 2011;
  - (b) December 31, 2010; and
  - (c) January 1, 2010 (opening IFRS statement of financial position).
2. The auditor may have performed an audit of the entity's financial statements prepared in accordance with pre-changeover accounting standards for the years ended December 31, 2010 and 2009. However, these financial statements are not included in the first financial statements of the entity prepared under IFRSs. Rather, the first IFRS financial statements include the financial statements for the year ended December 31, 2010 and the January 1, 2010 opening statement of financial position prepared in accordance with IFRSs. Unless specifically engaged to do so, the auditor will not have audited and reported on these financial statements. The auditor will have performed procedures with respect to the comparative information as required by paragraph 7-9 of CAS 710, *Comparative Information — Corresponding Figures and Comparative Financial Statements*, but these procedures are not necessarily themselves sufficient for the auditor to opine on the comparative information.
3. Under paragraph 6(b) of CAS 710 the comparative information is "corresponding figures". Corresponding figures are amounts and disclosures for the prior period included as an integral part of the current period financial statements. The level of detail presented in the corresponding amounts and disclosures is dictated primarily by its relevance to the current period figures. This Illustrative Report is based on Illustration 3 in CAS 710.
4. The auditor's report indicates that the comparative information is unaudited in a paragraph after the opinion paragraph in accordance with paragraph 14 of CAS 710 in order to clearly indicate to readers that the December 31, 2010 financial statements and the January 1, 2010 opening statement of financial position prepared in accordance with IFRSs have not been audited. The paragraph also makes reference to the note to the financial statements that describes the transition to IFRSs. This form of paragraph has been developed to address the specific circumstances discussed in Q&A 1(d) in this Guide when the comparative information is unaudited and is not intended to address other circumstances.



## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

We have audited the accompanying financial statements of ABC Company, which comprise the statement of financial position as at December 31, 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of ABC Company as at December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Comparative Information*

Without modifying our opinion, we draw attention to Note X to the financial statements which describes that ABC Company adopted International Financial Reporting Standards on January 1, 2011 with a transition date of January 1, 2010. These standards were applied retrospectively by management to the comparative information in these financial statements, including the statements of financial position as at December 31, 2010 and January 1, 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended December 31, 2010 and related disclosures. We were not engaged to report on the restated comparative information, and as such, it is unaudited.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

## FIRST FINANCIAL STATEMENTS UNDER CANADIAN ACCOUNTING STANDARDS FOR PRIVATE ENTERPRISES

### **2(a) Accounting Standards for Private Enterprises Are Adopted for Financial Statement Periods Ending Prior to December 14, 2010 – Auditor’s Report Refers to the Current Period Only**

- **The financial statement period for the first financial statements under accounting standards for private enterprises is the year ended December 31, 2009**
- **The auditor’s report refers to the current period only**
- **The audit is conducted in accordance with Canadian GAAS prior to the effective date of the CASs**
- **The corresponding figures are not marked as unaudited**
- **The fact that the corresponding figures are unaudited is not disclosed in the notes to the financial statements**

**(Please read Introduction to Illustrative Reports)**

1. The entity’s first accounting standards for private enterprises financial statements would include the entity’s balance sheet as at:
  - (a) December 31, 2009;
  - (b) December 31, 2008; and
  - (c) January 1, 2008 (opening accounting standard for private enterprise balance sheet).
  
2. The auditor may have performed an audit of the entity’s financial statements prepared in accordance with pre-changeover accounting standards for the years ended December 31, 2008 and December 31, 2007. However, these financial statements are not included in the first financial statements of the entity prepared under accounting standards for private enterprises. Rather, the first accounting standard for private enterprise financial statements include the financial statements for the year ended December 31, 2008 and the January 1, 2008 opening balance sheet prepared in accordance with accounting standards for private enterprises. Unless specifically engaged to do so, the auditor will not have audited and reported on these financial statements.
  
3. Section 5701, *Other Reporting Matters*, states that where financial statements include unaudited comparative figures for a prior period, they should preferably be clearly marked as unaudited in order to make it clear that the auditor’s opinion does not extend to them. If the comparative figures are not marked as unaudited, disclosure should be made, either in the notes to the financial statements or in the auditor’s report following the opinion paragraph, that the auditor has not examined, and does not express an opinion on, the financial statements for the preceding period. A paragraph after the opinion paragraph has been included in this Illustrative Report. The paragraph also makes reference to the note to the financial statements that describes the transition to Canadian accounting standards for private enterprises. This form of paragraph has been developed to address the specific

circumstances discussed in Q&A 1(d) in this Guide when the comparative information is unaudited and is not intended to address other circumstances.

4. Because the financial statements are for the year ended December 31, 2009 (i.e., before the effective date of the CASs), the audit is conducted in accordance with Canadian GAAS in effect before the effective date of the CASs. Section 5400, *The Auditor's Standard Report*, requires that in the opinion paragraph the auditor express his or her opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the entity in accordance with Canadian GAAP. (Refer to Q&A 1(b) in this Guide for guidance on the form of opinion.)

#### AUDITOR'S REPORT

[Appropriate Addressee]

We have audited the balance sheet of ABC Company as at December 31, 2009 and the statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of ABC Company as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

Without modifying our opinion, we draw attention to Note X to the financial statements which describes that ABC Company adopted Canadian accounting standards for private enterprises on January 1, 2009 with a transition date of January 1, 2008. These standards were applied retrospectively by management to the comparative information in these financial statements, including the balance sheets as at December 31, 2008 and January 1, 2008, and the statements of income, retained earnings and cash flows for the year ended December 31, 2008 and related disclosures. We were not engaged to report on the restated comparative information, and as such, we have not audited, and do not express an opinion on, the comparative information.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

**2(b) Accounting Standards for Private Enterprises Are Adopted for Financial Statement Periods Ending Prior to December 14, 2010 – Review Engagement Report Refers to the Current Period Only**

- **The financial statement period for the first financial statements under accounting standards for private enterprises is the year ended December 31, 2009**
- **The review engagement report refers to the current period only**
- **The review is conducted in accordance with Section 8200, Public Accountant's Review of Financial Statements**
- **The fact that the corresponding figures are neither audited nor reviewed is not disclosed in the financial statements**

**(Please read Introduction to Illustrative Reports)**

1. The entity's first accounting standard for private enterprise financial statements would include the entity's balance sheet as at:
  - (a) December 31, 2009;
  - (b) December 31, 2008; and
  - (c) January 1, 2008 (opening accounting standard for private enterprise balance sheet).
2. The public accountant may have performed a review of the entity's financial statements prepared in accordance with pre-changeover accounting standards for the years ended December 31, 2008 and 2007. However, these financial statements are not included in the first financial statements of the entity prepared in accordance with accounting standards for private enterprises. Rather, the first accounting standard for private enterprise financial statements include the financial statements for the year ended December 31, 2008 and the January 1, 2008 opening balance sheet prepared in accordance with accounting standards for private enterprises. Unless specifically engaged to do so, the public accountant will not have reviewed and reported on these financial statements.
3. *General Review Standards*, paragraph 8100.41, requires that when comparative figures were neither audited nor reviewed, and disclosure of such matters is not made in the information on which the public accountant reports, disclosure should be made in a separate and final paragraph of the review engagement report. A final paragraph has been included in this Illustrative Report. The paragraph also makes reference to the note to the financial statements that describes the transition to Canadian accounting standards for private enterprises. This form of paragraph has been developed to address the specific circumstances discussed in Q&A 1(d) in this Guide when the comparative information is unaudited and is not intended to address other circumstances.
4. *General Review Standards*, paragraph 8100.15, requires that in the negative assurance paragraph, the public accountant should express negative assurance as to whether the financial statements are, in all material respects, in accordance with appropriate criteria. (Refer to the Q&A 1(b) in this Guide for guidance on the form of report.)

## REVIEW ENGAGEMENT REPORT

[Appropriate Addressee]

We have reviewed the balance sheet of ABC Company as at December 31, 2009 and the statements of income, retained earnings and cash flows for the year then ended. Our review was made in accordance with Canadian generally accepted standards for review engagements and, accordingly, consisted primarily of inquiry, analytical procedures and discussion related to information supplied to us by the company.

A review does not constitute an audit and, consequently, we do not express an audit opinion on these financial statements.

Based on our review, nothing has come to our attention that causes us to believe that these financial statements are not, in all material respects, in accordance with Canadian accounting standards for private enterprises.

We draw attention to Note X to the financial statements which describes that ABC Company adopted Canadian accounting standards for private enterprises on January 1, 2009 with a transition date of January 1, 2008. These standards were applied retrospectively by management to the comparative information in these financial statements, including the balance sheets as at December 31, 2008 and January 1, 2008, and the statements of income, retained earnings and cash flows for the year ended December 31, 2008 and related disclosures. We were not engaged to report on the restated comparative information, and as such, it is neither audited nor reviewed.

[Public accountant's signature]

[Date of the review engagement report]

[Public accountant's address]

**2(c) Accounting Standards for Private Enterprises Are Adopted on the Effective Date – Auditor’s Report Refers to Each Period for which Financial Statements Are Presented**

- **The financial statement period for the first financial statements under accounting standards for private enterprises is the year ended December 31, 2011**
- **The auditor’s report refers to each period for which financial statements are presented**
- **The audit is conducted in accordance with Canadian Auditing Standards**

**(Please read Introduction to Illustrative Reports)**

- 1 The entity’s first accounting standards for private enterprises financial statements would include the entity’s balance sheets as at:
  - (a) December 31, 2011;
  - (b) December 31, 2010; and
  - (c) January 1, 2010 (opening accounting standard for private enterprise balance sheet).
- 2 The auditor may have performed an audit of the entity’s financial statements prepared in accordance with pre-changeover accounting standards for the years ended December 31, 2010 and 2009. However, these financial statements are not included in the first financial statements of the entity prepared in accordance with accounting standards for private enterprises. Rather, the first accounting standard for private enterprise financial statements include the financial statements for the year ended December 31, 2010 and the January 1, 2010 opening balance sheet prepared in accordance with accounting standards for private enterprises. Unless specifically engaged to do so, the auditor will not have audited and reported on these financial statements. Accordingly, in order for the auditor’s report to refer to each period for which financial statements are presented, the auditor would need to audit the financial statements for the year ended December 31, 2010 and the January 1, 2010 opening balance sheet prepared in accordance with accounting standards for private enterprises.
- 3 Under paragraph 6(c) of CAS 710, *Comparative Information – Corresponding Figures and Comparative Financial Statements*, the comparative information is “comparative financial statements”. Comparative financial statements are included for comparison with the financial statements of the current period. The level of information included in those comparative financial statements is comparable with that of the financial statements of the current period. This Illustrative Report is based on Illustration 4 in CAS 710.

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

We have audited the accompanying financial statements of ABC Company, which comprise the balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010, and the statements of income, retained earnings and cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these 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.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of ABC Company as at December 31, 2011, December 31, 2010 and January 1, 2010, and the results of its operations and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with Canadian accounting standards for private enterprises.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]



**2(d) Accounting Standards for Private Enterprises Are Adopted on the Effective Date – Auditor’s Report Refers to the Current Period Only**

- **The financial statement period for the first financial statements under accounting standards for private enterprises is the year ended December 31, 2011**
- **The auditor’s report refers to the current period only**
- **The audit is conducted in accordance with Canadian Auditing Standards**

**(Please read Introduction to Illustrative Reports)**

1. The entity’s first accounting standards for private enterprises financial statements would include the entity’s balance sheet as at:
  - (a) December 31, 2011;
  - (b) December 31, 2010; and
  - (c) January 1, 2010 (opening accounting standard for private enterprise balance sheet).
2. The auditor may have performed an audit of the entity’s financial statements prepared in accordance with pre-changeover accounting standards for the years ended December 31, 2010 and December 31, 2009. However, these financial statements are not included in the first financial statements of the entity prepared in accordance with accounting standards for private enterprises. Rather, the first accounting standard for private enterprise financial statements include the financial statements for the year ended December 31, 2010 and the January 1, 2010 opening balance sheet prepared in accordance with accounting standards for private enterprises. Unless specifically engaged to do so, the auditor will not have audited and reported on these financial statements. The auditor will have performed procedures with respect to the comparative information as required by paragraphs 7-9 of CAS 710, *Comparative Information – Corresponding Figures and Comparative Financial Statements*, but these procedures are not necessarily themselves sufficient for the auditor to opine on the comparative information.
3. Under paragraph 6(b) of CAS 710, these figures are “corresponding figures”. Corresponding figures are amounts and disclosures for the prior period included as an integral part of the current period financial statements. The level of detail presented in the corresponding amounts and disclosures is dictated primarily by its relevance to the current period figures. This Illustrative Report is based on Illustration 3 in CAS 710.
4. The auditor’s report indicates that the comparative information is unaudited in a paragraph after the opinion paragraph in accordance with paragraph 14 of CAS 710 in order to clearly indicate to readers that the December 31, 2010 financial statements and the January 1, 2010 opening balance sheet prepared in accordance with accounting standards for private enterprises have not been audited. The paragraph also makes reference to the note to the financial statements that describes the transition to Canadian accounting standards for private enterprises. This

form of paragraph has been developed to address the specific circumstances discussed in Q&A 1(d) in this Guide when the comparative information is unaudited and is not intended to address other circumstances.

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

We have audited the accompanying financial statements of ABC Company, which comprise the balance sheet as at December 31, 2011, and the statements of income, retained earnings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these 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.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of ABC Company as at December 31, 2011, and the results of its operations and its cash flows for the year

then ended in accordance with Canadian accounting standards for private enterprises.

*Comparative Information*

Without modifying our opinion, we draw attention to Note X to the financial statements which describes that ABC Company adopted Canadian accounting standards for private enterprises on January 1, 2011 with a transition date of January 1, 2010. These standards were applied retrospectively by management to the comparative information in these financial statements, including the balance sheets as at December 31, 2010 and January 1, 2010, and the statements of income, retained earnings and cash flows for the year ended December 31, 2010 and related disclosures. We were not engaged to report on the restated comparative information, and as such, it is unaudited.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

## SPECIAL PURPOSE FINANCIAL STATEMENTS

### 3(a) Pension Fund Financial Statements Filed with a Regulator – Auditor's Report

- **The financial statements are for the year ended December 31, 2010 to meet the expressed needs of the pension regulator**
- **The financial reporting framework is prescribed by law or regulation, which requires the financial statements to be prepared in accordance with pre-changeover standards except that they exclude disclosures relating to pension obligations. This example is also relevant if the financial reporting framework prescribed by law or regulation requires the financial statements to be prepared in accordance with Part IV of the CICA Handbook – Accounting. (Refer to Q&A 1(c) in this Guide for the wording of the opinion paragraph for different financial reporting frameworks.)**
- **The financial statements describe the financial reporting framework by reference to the financial reporting provisions of the respective legislation or regulation**
- **The auditor's report refers to the current period only**
- **The audit is conducted in accordance with Canadian Auditing Standards**
- **An Emphasis of Matter paragraph is required. Use of the auditor's report is restricted but distribution of the auditor's report is not restricted. Other choices are permitted. (Refer to Q&A 2(b) in this Guide for the permitted choices.)**

**(Please read Introduction to Illustrative Reports)**

1. These are special purpose financial statements because the financial reporting framework used in preparing the financial statements is designed to meet the needs of specific users, as discussed in paragraph 6 of CAS 800, *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*. Accordingly, the special considerations in CAS 800 apply.
2. Because the financial reporting framework comprises financial reporting standards established by an authorized or recognized standards setting organization, supplemented by law or regulation, the auditor considers the requirements in paragraph 18 of CAS 210, *Agreeing the Terms of Audit Engagements*. 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 pre-changeover accounting standards).
3. Paragraph A6 of CAS 800 applies. 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.

4. It has been assumed that this is a fair presentation framework. (Refer to Q&A 2(d) in this Guide with respect to fair presentation and compliance frameworks.)

## INDEPENDENT AUDITOR'S REPORT

[Trustees of ABC Pension Plan]

We have audited the accompanying financial statements of the fund of ABC Pension Plan, which comprise the statement of net assets available for benefits as at December 31, 2010, and the statement of changes in net assets available for benefits for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management based on the financial reporting provisions of Section X of the Y Act.

### *Management's Responsibility 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 Y Act, 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.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the net assets available for benefits of the fund of ABC Pension Plan as at December 31, 2010, and the 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 of Accounting and Restriction on Use*

Without modifying our opinion, we draw attention to Note Z to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Trustees of ABC Pension Plan to meet the requirements of Pension Regulator. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Trustees of ABC Pension Plan and Pension Regulator and should not be used by parties other than the Trustees of ABC Pension Plan or Pension Regulator.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

**3(b) Financial Statements Prepared in Accordance with the Terms of a Purchase and Sale Agreement – Auditor's Report**

- The financial statements are for the year ended December 31, 2010 to meet the expressed needs of the parties to the purchase and sale agreement
- The financial reporting framework is prescribed by the purchase and sale agreement, which requires the financial statements to be prepared in accordance with pre-changeover standards except that the property has been valued at appraised values rather than in accordance with the accounting standards. This example is also relevant if the financial reporting framework prescribed by the purchase and sale agreement requires the financial statements to be prepared in accordance with other Parts of the CICA Handbook - Accounting. (Refer to Q&A 1(c) in this Guide for the wording of the opinion paragraph for different financial reporting frameworks.)
- The financial statements describe the financial reporting framework by reference to the financial reporting provisions of the purchase and sale agreement
- The auditor's report refers to the current period only
- The audit is conducted in accordance with Canadian Auditing Standards
- An Emphasis of Matter paragraph is required. Use of the auditor's report is restricted and distribution of the auditor's report is not restricted. Other choices are permitted. (Refer to Q&A 2(b) in this Guide for the permitted choices.)

**(Please read Introduction to Illustrative Reports)**

1. These are special purpose financial statements because the financial reporting framework used in preparing the financial statements is designed to meet the needs of specific users, as discussed in paragraph 6 of CAS 800, *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*. Accordingly, the special considerations in CAS 800 apply.
2. Paragraph A8 of CAS 800 applies to this situation. The financial reporting framework is acceptable if it exhibits the attributes normally exhibited by acceptable financial reporting frameworks as described in Appendix 2 to CAS 210, *Agreeing the Terms of Audit Engagements*.
3. It has been assumed that this is a fair presentation framework. (Refer to Q&A 2(d) in this Guide for guidance with respect to fair presentation and compliance frameworks.)

## INDEPENDENT AUDITOR'S REPORT

[Directors of ABC Company]

We have audited the accompanying financial statements of ABC Company, which comprise the balance sheet as at December 31, 2010, and the statements of income, retained earnings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management based on the financial reporting provisions of Section X of the purchase and sale agreement between ABC Company and DEF Company.

### *Management's Responsibility 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 purchase and sale agreement between ABC Company and DEF Company, 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.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of ABC Company as at December 31, 2010, and the results of its 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 ABC Company and DEF Company.



*Basis of Accounting and Restriction on Use*

Without modifying our opinion, we draw attention to Note Y to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist ABC Company to comply with the reporting provisions of the purchase and sale agreement referred to above. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Directors of ABC Company and DEF Company and should not be used by parties other than the Directors of ABC Company or DEF Company.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

**3(c) Financial Statements of a Co-operative Housing Association Filed with Canada Mortgage and Housing Corporation — Auditor's Report**

- **The financial statements are for the year ended December 31, 2010 to meet the expressed needs of Canada Mortgage and Housing Corporation (CMHC) under the terms of the mortgage agreement**
- **The financial reporting framework is prescribed by the mortgage agreement, which requires the financial statements to be prepared in accordance with pre-changeover standards 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. (Refer to Q&A 1(c) in this Guide for the wording of the opinion paragraph for different financial reporting frameworks.)**
- **The financial statements describe the financial reporting framework by reference to the financial reporting provisions of the mortgage agreement with CMHC**
- **The auditor's report refers to the current period only**
- **The audit is conducted in accordance with Canadian Auditing Standards**
- **An Emphasis of Matter paragraph is required. Use of the auditor's report is restricted but distribution of the auditor's report is not restricted. Other choices are permitted. (Refer to Q&A 2(b) in this Guide for the permitted choices.)**

**(Please read Introduction to Illustrative Reports)**

1. These are special purpose financial statements because the financial reporting framework used in preparing the financial statements is designed to meet the needs of specific users, as discussed in paragraph 6 of CAS 800, *Special Considerations — Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*. Accordingly, the special considerations in CAS 800 apply.
2. Because the financial reporting framework comprises financial reporting standards established by an authorized or recognized standards setting organization, supplemented by law or regulation, the auditor considers the requirements in paragraph 18 of CAS 210, *Agreeing the Terms of Audit Engagements*. 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 pre-changeover accounting standards).

3. Paragraph A8 of CAS 800 applies to this situation. The financial reporting framework is acceptable if it exhibits the attributes normally exhibited by acceptable financial reporting frameworks as described in Appendix 2 to CAS 210.
4. It has been assumed that this is a fair presentation framework. (Refer to Q&A 2(d) in this Guide for guidance with respect to fair presentation and compliance frameworks.).

#### INDEPENDENT AUDITOR'S REPORT

[Directors of ABC Housing Co-operative]

We have audited the accompanying financial statements of ABC Housing Co-operative, which comprise the balance sheet as at December 31, 2010, and the statements of income, retained earnings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management based on the financial reporting provisions of Section X of the mortgage agreement between ABC Housing Co-operative and Canada Mortgage and Housing Corporation (CMHC).

##### *Management's Responsibility 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 between ABC Housing Co-operative and CMHC, 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.

##### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of ABC Housing Co-operative as at December 31, 2010, and the results of its 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 ABC Housing Co-operative and CMHC.

*Basis of Accounting and Restriction on Use*

Without modifying our opinion, we draw attention to Note Y to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist ABC Housing Co-operative to comply with the reporting provisions of the mortgage agreement referred to above. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Directors of ABC Housing Co-operative and CMHC and should not be used by parties other than the Directors of ABC Housing Co-operative or CMHC.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

**3(d) Non-consolidated Financial Statements Prepared for a Specific Purpose in Accordance with a General Purpose Financial Reporting Framework (Canadian accounting standards for private enterprises) – Auditor’s Report**

- The entity is a private enterprise.
- The financial statements are for the year ended December 31, 2010 to assist ABC Company to prepare its corporate income tax returns filed with the income tax authorities.
- This is not the entity’s first financial statements under Canadian accounting standards for private enterprises.
- The auditor’s report refers to the current period only.
- The audit is conducted in accordance with Canadian Auditing Standards.
- An Other Matter paragraph has been added in accordance with paragraph A9 of CAS 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report*, to highlight to readers that the financial statements have been prepared for a specific purpose and to restrict use of the auditor’s report to these users. Other choices are permitted. (Refer to Q&A 2(c) in this Guide for further discussion of this paragraph.)

**(Please read Introduction to Illustrative Reports)**

1. These financial statements are prepared for a specific purpose in accordance with a general purpose framework. They do not meet the definition of special purpose financial statements as discussed in paragraphs 12-15 of Q&A 2(c) in this Guide. The auditor’s report on such financial statements is prepared in accordance with CAS 700, *Forming an Opinion and Reporting on Financial Statements*.
2. *Subsidiaries*, paragraph 1590.23 in Part II of the CICA Handbook – Accounting 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 auditor’s report would refer to each statement as being non-consolidated.

#### INDEPENDENT AUDITOR’S REPORT

[Appropriate addressee]

We have audited the accompanying non-consolidated financial statements of ABC Company, which comprise the non-consolidated balance sheet as at December 31, 2010, and the non-consolidated statements of income, retained earnings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management’s Responsibility 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 non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these non-consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the non-consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the non-consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the non-consolidated financial statements.

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

#### *Opinion*

In our opinion, the non-consolidated financial statements present fairly, in all material respects, the financial position of ABC Company as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

#### *Other Matter*

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

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

**3(e) *Non-consolidated Financial Statements Prepared in Accordance with a Special Purpose Financial Reporting Framework (Pre-changeover accounting standards) – Auditor’s Report***

- **The entity is not a qualifying enterprise for purposes of selecting differential reporting options, or is a qualifying enterprise but has not elected the differential reporting option to use either the equity method or cost method to account for subsidiaries (i.e., it prepares consolidated financial statements).**
- **The financial statements are for the year ended December 31, 2010 to assist ABC Company to prepare its corporate income tax returns filed with the income tax authorities.**
- **The income tax authorities do not specify the financial reporting framework. Therefore, management has a choice of financial reporting frameworks in the preparation of the financial statements and has determined that preparing them in accordance with Part V of the CICA Handbook – Accounting, except that they are non-consolidated, is acceptable in the circumstances.**
- **Each statement in the financial statements is described as being non-consolidated.**
- **The auditor’s report refers to the current period only.**
- **The audit is conducted in accordance with Canadian Auditing Standards.**
- **An Emphasis of Matter paragraph is required. Use of the auditor’s report is restricted but distribution of the auditor’s report is not restricted. Other choices are permitted. (Refer to Q&A 2(b) in this Guide for the permitted choices.)**

**(Please read Introduction to Illustrative Reports)**

1. The financial reporting framework is not considered to be a general purpose framework for this type of entity because Part V of the CICA Handbook – Accounting does not permit non-consolidated financial statements except when the entity is a qualifying enterprise for purposes of selecting differential reporting options and elects to use either the equity method or cost method to account for subsidiaries in its general purpose financial statements. These are special purpose financial statements because the financial reporting framework used in preparing the financial statements is designed to meet the needs of specific users, as discussed in paragraph 6 of CAS 800, *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*. Accordingly, the special considerations in CAS 800 apply.
2. Paragraph A8 of CAS 800 applies to this situation. The financial reporting framework is acceptable if it exhibits the attributes normally exhibited by acceptable financial reporting frameworks as described in Appendix 2 to CAS 210, *Agreeing the Terms of Audit Engagements*.
3. Because management has a choice of financial reporting frameworks, paragraph 13(b) of CAS 800 requires the auditor’s report to make reference to management’s responsibility for



determining that the applicable financial reporting framework is acceptable in the circumstances.

4. It has been assumed that this is a fair presentation framework. (Refer to Q&A 2(d) in this Guide for guidance with respect to fair presentation and compliance frameworks.)

## INDEPENDENT AUDITOR'S REPORT

[Appropriate addressee]

We have audited the accompanying non-consolidated financial statements of ABC Company, which comprise the non-consolidated balance sheet as at December 31, 2010, and the non-consolidated statements of income, changes in shareholders' equity, comprehensive income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The non-consolidated financial statements have been prepared by management using the basis of accounting described in Note X.

### *Management's Responsibility for the Non-consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these non-consolidated financial statements in accordance with the basis of accounting described in Note X; this includes determining that the basis of accounting is an acceptable basis for the preparation of the non-consolidated financial statements in the circumstances, and for such internal control as management determines is necessary to enable the preparation of non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these non-consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the non-consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the non-consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the non-consolidated financial statements.

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

*Opinion*

In our opinion, the non-consolidated financial statements present fairly, in all material respects, the financial position of ABC Company as at December 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with the basis of accounting described in Note X.

*Basis of Accounting*

Without modifying our opinion, we draw attention to Note X to the non-consolidated financial statements, which describes the basis of accounting. The non-consolidated financial statements are prepared to assist ABC Company to prepare its corporate income tax returns. As a result, the non-consolidated financial statements may not be suitable for another purpose. Our report is intended solely for ABC Company and the income tax authorities and should not be used by parties other than ABC Company or the income tax authorities.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

## REPORTS ON FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH NATIONAL INSTRUMENT 52-107

### Introduction

On October 1, 2010, the Canadian Securities Administrators published National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* to reflect new requirements when preparing financial statements, financial information, operating statements and *pro forma* financial statements for periods relating to financial years beginning on or after January 1, 2011.

**4(a) *Financial Statements of a Registrant Prepared in Accordance with National Instrument 52-107, subsection 3.2(4) – Auditor’s Report***

- The financial statements are for the year ended December 31, 2011 to comply with the securities regulatory requirements for registrants, and comparative information is not presented.
- Registrants are required to prepare financial statements in accordance with paragraph 3.2(3)(a) of National Instrument 52-107. For periods relating to a fiscal year beginning in 2011, section 3.2 permits registrants to prepare financial statements in accordance with either paragraph 3.2(3)(a) or subsection 3.2(4). The entity has chosen to prepare financial statements in accordance with subsection 3.2(4). (Refer to Illustrative Report 4(b) for an auditor’s report on financial statements prepared in accordance with paragraph 3.2(3)(a).)
- The entity prepared annual financial statements that comply with the financial reporting framework prescribed by subsection 3.2(4) of National Instrument 52-107 for financial statements delivered by registrants.
- The financial reporting framework requires the financial statements to:
  - (i) 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 International Accounting Standard 27;
  - (ii) exclude comparative information relating to the preceding year; and
  - (iii) use the first day of the financial year to which the financial statements relates as the date of transition to the financial reporting framework.
- The financial statements describe the financial reporting framework by reference to subsection 3.2(4) of National Instrument 52-107.
- The audit is conducted in accordance with Canadian Auditing Standards.
- An Emphasis of Matter paragraph is required. Use of the auditor’s report is restricted but distribution of the auditor’s report is not restricted. Other choices are permitted. (Refer to Q&A 2(b) in this Guide for the permitted choices.)

**(Please read Introduction to Illustrative Reports)**

1. These financial statements are not prepared for filing with securities regulators as part of the continuous disclosure obligations of a reporting issuer. Rather, they must be delivered to the securities regulators using the financial reporting framework prescribed by the regulators in order to meet the specific needs of those regulators (“special purpose framework”). Financial statements prepared in accordance with a special purpose framework are special purpose financial statements. Accordingly, the special considerations of CAS 800, *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, apply.

2. One of the considerations in accepting an engagement is whether the financial statements adequately refer to or describe the applicable financial reporting framework. In this case, the financial reporting framework is described by reference to National Instrument 52-107.
3. Paragraph A6 of CAS 800 indicates that the applicable financial reporting framework may encompass the financial reporting standards established by an organization that is authorized or recognized to promulgate standards for special purpose financial statements. In that case, those standards will be presumed to be acceptable for that purpose if the organization follows an established and transparent process involving deliberation and consideration of the views of relevant stakeholders.
4. It has been assumed that this is a fair presentation framework. (Refer to Q&A 2(d) in this Guide for guidance with respect to fair presentation and compliance frameworks.)

#### INDEPENDENT AUDITOR'S REPORT

[Directors of ABC Company]

We have audited the accompanying financial statements of ABC Company, which comprise the statements of financial position as at December 31, 2011 and January 1, 2011, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year ended December 31, 2011, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management to meet the requirements of National Instrument 31-103 *Registration Requirements and Exemptions*, based on the financial reporting framework specified in subsection 3.2(4) of National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* for financial statements delivered by registrants.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting framework specified in subsection 3.2(4) 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.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of ABC Company as at December 31, 2011 and January 1, 2011, and its financial performance and its cash flows for the year ended December 31, 2011 in accordance with the financial reporting framework specified in subsection 3.2(4) of National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* for financial statements delivered by registrants.

#### *Basis of Accounting and Restriction on Use*

Without modifying our opinion, we draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist ABC Company to meet the requirements of National Instrument 31-103 *Registration Requirements and Exemptions*. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Directors of ABC Company and Regulator DEF, and should not be used by parties other than the Directors of ABC Company or Regulator DEF.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

**4(b) Financial Statements of a Registrant Prepared in Accordance with National Instrument 52-107, paragraph 3.2(3)(a) — Auditor's Report**

- The financial statements are for the year ended December 31, 2011 to comply with the securities regulatory requirements for registrants, and comparative information is presented.
- Registrants are required to prepare financial statements in accordance with paragraph 3.2(3)(a) of National Instrument 52-107. For periods relating to a fiscal year beginning in 2011, section 3.2 permits registrants to prepare financial statements in accordance with either paragraph 3.2(3)(a) or subsection 3.2(4). The entity has chosen to prepare financial statements in accordance with paragraph 3.2(3)(a). (Refer to Illustrative Report 4(a) for an auditor's report on financial statements prepared in accordance with subsection 3.2(4).)
- The entity prepared annual financial statements that comply with the financial reporting framework prescribed by paragraph 3.2(3)(a) of National Instrument 52-107 for financial statements delivered by registrants. The framework requires the financial statements 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 Consolidated and Separate Financial Statements*.
- The financial statements describe the financial reporting framework by reference to paragraph 3.2(3)(a) of National Instrument 52-107.
- The audit is conducted in accordance with Canadian Auditing Standards.
- An Emphasis of Matter paragraph is required. Use of the auditor's report is restricted but distribution of the auditor's report is not restricted. Other choices are permitted. (Refer to Q&A 2(b) in this Guide for the permitted choices.)

**(Please read Introduction to Illustrative Reports)**

1. These financial statements are not prepared for filing with securities regulators as part of the continuous disclosure obligations of a reporting issuer. Rather, they must be delivered to the securities regulators using the financial reporting framework prescribed by the regulators in order to meet the specific needs of those regulators ("special purpose framework"). Financial statements prepared in accordance with a special purpose framework are special purpose financial statements. Accordingly, the special considerations of CAS 800, *Special Considerations — Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, apply.
2. One of the considerations in accepting an engagement is whether the financial statements adequately refer to or describe the applicable financial reporting framework. In this case, the financial reporting framework is described by reference to National Instrument 52-107.



3. Paragraph A6 of CAS 800 indicates that the applicable financial reporting framework may encompass the financial reporting standards established by an organization that is authorized or recognized to promulgate standards for special purpose financial statements. In that case, those standards will be presumed to be acceptable for that purpose if the organization follows an established and transparent process involving deliberation and consideration of the views of relevant stakeholders.
4. It has been assumed that this is a fair presentation framework. (Refer to Q&A 2(d) in this Guide for guidance with respect to fair presentation and compliance frameworks.)

#### INDEPENDENT AUDITOR'S REPORT

[Directors of ABC Company]

We have audited the accompanying financial statements of ABC Company, which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management to meet the requirements of National Instrument 31-103 *Registration Requirements and Exemptions*, based on 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.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these 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.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk

assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of ABC Company as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 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 of Accounting and Restriction on Use

Without modifying our opinion, we draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist ABC Company to meet the requirements of National Instrument 31-103 *Registration Requirements and Exemptions*. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Directors of ABC Company and Regulator DEF, and should not be used by parties other than the Directors of ABC Company or Regulator DEF.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

**4(c) Acquisition Statement for an Oil and Gas Property Prepared in Accordance with National Instrument 52-107, subsection 3.11(5) – Auditor’s Report**

- **Company DEF acquired the oil and gas property ABC.**
- **DEF must file a business acquisition report with securities regulators.**
- **Management of DEF prepared the operating statement of ABC for the years ended December 31, 2011 and 2010.**
- **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:**
  - (i) include line items for at least gross revenue, royalty expenses, production costs and operating income; and**
  - (ii) for each line use accounting policies permitted by one of Canadian GAAP applicable to publicly accountable enterprises, IFRSs, US 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’s report refers to the most recently completed financial period presented.**
- **The audit is conducted in accordance with Canadian Auditing Standards.**

**(Please read Introduction to Illustrative Reports)**

1. The financial reporting framework has been designed by the securities regulators to meet the common information needs of a broad range of users (“general purpose framework”). Financial statements prepared in accordance with a general purpose framework are general purpose financial statements. However, the securities regulators have determined that users do not need a complete set of financial statements to meet their information needs. Accordingly, *CAS 805, Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement applies, and the form of report is based on CAS 700, Forming an Opinion and Reporting on Financial Statements.*
2. One of the considerations in accepting an engagement is whether the financial statements adequately refer to or describe the applicable financial reporting framework. In this case, the financial reporting framework is described by reference to National Instrument 52-107.
3. Paragraph 8 of CAS 805 requires the auditor to determine the acceptability of the financial reporting framework, including whether application of the financial reporting framework will result

in a presentation that provides adequate disclosures to enable the intended users to understand the information conveyed in the financial statement, and the effect of material transactions and events on the information conveyed in the financial statement.

4. Because the comparative operating statement is unaudited, the auditor is required by paragraph 14 of CAS 710, *Comparative Information – Corresponding Figures and Comparative Financial Statements*, to include an Other Matter paragraph stating that the comparative operating statement is unaudited.
5. It has been assumed that this is a compliance framework. (Refer to Q&A 2(d) in this Guide for guidance with respect to fair presentation and compliance frameworks.)

#### INDEPENDENT AUDITOR'S REPORT

[Directors of DEF Company]

We have audited the accompanying operating statement containing gross revenues, royalty expenses, production costs and operating income of ABC for the year ended December 31, 2011, and a summary of significant accounting policies and other explanatory information (together "the operating statement").

##### *Management's Responsibility for the Operating Statement*

Management of DEF Company is responsible for the preparation of this operating statement of ABC 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 determines is necessary to enable the preparation of the operating statement that is free from material misstatement, whether due to fraud or error.

##### *Auditor's Responsibility*

Our responsibility is to express an opinion on the operating statement based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the operating statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the operating statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the operating statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the operating statement 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting

estimates, if any, made by management, as well as evaluating the overall presentation of the operating statement.

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

*Opinion*

In our opinion, the operating statement of ABC for the year ended December 31, 2011 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.

*Other Matter*

The operating statement of ABC for the year ended December 31, 2010, is unaudited.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

**4(d) Carve-out Financial Statements Prepared in Accordance with National Instrument 52-107, subsection 3.11(6) — Auditor's Report**

- **Company GHI acquired the business, ABC, a division of company DEF.**
- **GHI must file a business acquisition report with securities regulators.**
- **Management of DEF prepared the financial statements of ABC for the years ended December 31, 2011 and December 31, 2010.**
- **The financial statements are based on information from the financial records of another entity whose operations included the acquired business and there are no separate financial records for the acquired business. These are commonly referred to as “carve-out” financial statements.**
- **The financial reporting framework is prescribed by subsection 3.11(6) of National Instrument 52-107 for carve-out financial statements.**
- **The financial reporting framework requires the carve-out financial statements to:**
  - (i) be prepared in accordance with a set of accounting principles or standards permitted by the instrument, which is IFRSs for this illustration; and**
  - (ii) include all assets, liabilities, revenue and expenses directly attributable to the acquired business, a portion of common expenses shared with the other entity allocated on a reasonable basis, and income and capital taxes calculated as if the acquired business had been a separate legal entity and had filed a separate tax return for the period presented.**
- **The financial statements describe the financial reporting framework by reference to subsection 3.11(6) of National Instrument 52-107.**
- **The auditor's report refers to the most recently completed financial period presented.**
- **The audit is conducted in accordance with Canadian Auditing Standards.**

**(Please read Introduction to Illustrative Reports)**

1. The financial reporting framework has been designed by the securities regulators to meet the common information needs of a broad range of users (“general purpose framework”). The financial statements constitute a complete set of general purpose financial statements. Financial statements prepared in accordance with a general purpose framework are general purpose financial statements. Accordingly, CAS 700, *Forming an Opinion and Reporting on Financial Statements*, applies.
2. One of the considerations in accepting an engagement is whether the financial statements adequately refer to or describe the applicable financial reporting framework. In this case, the financial reporting framework is described by reference to National Instrument 52-107.

3. Because the comparative financial statements are unaudited, the auditor is required by paragraph 14 of CAS 710, *Comparative Information – Corresponding Figures and Comparative Financial Statements*, to include an Other Matter paragraph stating that the comparative financial statements are unaudited.
4. It has been assumed that this is a fair presentation framework. (Refer to Q&A 2(d) in this Guide for guidance with respect to fair presentation and compliance frameworks.)

#### INDEPENDENT AUDITOR'S REPORT

[Directors of GHI Company]

We have audited the accompanying financial statements of ABC, a Division of DEF Company, which comprise the statement of financial position as at December 31, 2011, and the statements of comprehensive income, statements of changes in owner's net investment and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

##### *Management's Responsibility for the Financial Statements*

Management of DEF Company is responsible for the preparation and fair presentation of ABC's financial statements in accordance with the financial reporting framework specified in subsection 3.11(6) of National Instrument 52-107 Acceptable Accounting Principles and Auditing Standards for carve-out financial statements, 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.

##### *Auditor's Responsibility*

Our responsibility is to express an opinion on ABC's financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by management, as well as evaluating the overall presentation of the financial statements.



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

*Opinion*

In our opinion, ABC's financial statements present fairly, in all material respects, the financial position of ABC as at December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with the financial reporting framework specified in subsection 3.11(6) of National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* for carve-out financial statements.

*Other Matter*

The statements of financial position as at December 31, 2010 and January 1, 2010, and the statement of comprehensive income, statement of changes in owner's net investment and statement of cash flows for the year ended December 31, 2010, are unaudited.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

## REPORTS FOR AUDITS CONDUCTED IN ACCORDANCE WITH BOTH CANADIAN AUDITING STANDARDS AND THE STANDARDS OF THE PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD (UNITED STATES)

### Introduction

1. These Illustrative Reports deal with the specific circumstances of reporting in accordance with the reporting standards in the Canadian Auditing Standards (CASs) and in the standards of the Public Company Accounting Oversight Board (United States) (PCAOB). It is assumed that the auditor has complied with the requirements in paragraphs 44 and 45 of CAS 700, *Forming an Opinion and Reporting on Financial Statements*. Paragraph A44 of CAS 700 indicates that when there is a conflict between the requirements in the CASs and the requirements in national auditing standards, the auditor's report refers only to the auditing standards in accordance with which the auditor's report has been prepared. The PCAOB standards require an explanatory paragraph in certain circumstances. CAS 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, permits the auditor to add an emphasis of matter paragraph or an other matter paragraph to the auditor's report. Accordingly, CAS 706 permits the auditor to avoid conflicts with PCAOB reporting standards by adding the relevant explanatory paragraph to the auditor's report.
2. The Illustrative Reports have been designed to comply with the reporting standards of both the CASs and the PCAOB standards.
3. The Illustrative Reports assume that the auditor has audited the entity's internal control over financial reporting but chooses to issue separate reports on the financial statements and internal control over financial reporting. The auditor may choose to issue a combined report on the financial statements and internal control over financial reporting. An example of a combined report is not included in these Illustrative Reports.
4. Accordingly, each Illustrative Report omits reference in the auditor's responsibility section to the phrase that the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of internal control, as required by paragraph 31(b) of CAS 700. Each Illustrative Report also includes an Other Matter paragraph referring to the fact that the auditor has audited, in accordance with the standards of the PCAOB, the entity's internal control over financial reporting. This Other Matter paragraph is required under PCAOB standards; however, it is permitted but not required under the CASs.
5. The US Securities and Exchange Commission requires that when financial statements are prepared in accordance with IFRSs the financial reporting framework should be described as "International Financial Reporting Standards as issued by the International Accounting Standards Board." This wording is required to be reflected in the auditor's report. (Refer to Q&A 1(b) in this Guide for discussion of the reference to the financial reporting framework in the practitioner's report.)

6. In the event that the auditor is not engaged to report on internal control over financial reporting, the Illustrative Reports 5(a)-(c) would be affected as follows:
- (a) the Other Matter paragraph referred to above would not be required;
  - (b) the sentence “In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances.” would be deleted; and
  - (c) the following would be added to the end of the first paragraph of the auditor’s responsibility section of the auditor’s report:

We were not engaged to perform an audit of the Company’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

**5(a) *Financial Statements Prepared in Accordance with Pre-Changeover Accounting Standards for the Year Ended December 31, 2010, with Reconciliation between United States (US) GAAP and Pre-changeover Accounting Standards – Auditor’s Report***

- **The financial statements are prepared in accordance with pre-changeover accounting standards.**
- **The auditor’s report refers to all periods presented.**
- **The audit is conducted in accordance with Canadian Auditing Standards and with the standards of the Public Company Accounting Oversight Board (PCAOB).**
- **The auditor’s report includes an Other Matter paragraph referring to the separate report on internal control over financial reporting.**

**(Please read Introduction to Illustrative Reports)**

1. Paragraph A10 of CAS 700, *Forming an Opinion and Reporting on Financial Statements*, states that when financial statements prepared in accordance with one financial reporting framework describe the extent to which the financial statements comply with another financial reporting framework, such description is supplementary financial information and is considered an integral part of the financial statements and, accordingly, is covered by the auditor’s opinion. When the reconciliation between US GAAP and pre-changeover accounting standards is included in the notes to the financial statements, it is integral to the financial statements and is covered by the auditor’s opinion. Paragraph A47 of CAS 700 indicates that supplementary information that is covered by the auditor’s opinion does not need to be specifically referred to in the introductory paragraph of the auditor’s report when the reference to the notes in the description of the statements that comprise the financial statements in the introductory paragraph is sufficient.

INDEPENDENT AUDITOR’S REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders

We have audited the accompanying financial statements of ABC Company, which comprise the balance sheets as at December 31, 2010 and December 31, 2009, and the statements of income, changes in shareholders’ equity, comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2010, and a summary of significant accounting policies and other explanatory information.

*Management’s Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, 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.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.<sup>8</sup>

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of ABC Company as at December 31, 2010 and December 31, 2009, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2010 in accordance with Canadian generally accepted accounting principles.

### *Other Matter*

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), ABC Company's internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated [date of auditor's report on internal control over financial reporting] expressed an unqualified opinion on ABC Company's internal control over financial reporting.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

<sup>8</sup> See paragraph 4 of the Introduction to Illustrative Reports for Audits Conducted in Accordance with Both the CASs and PCAOB Standards

**5(b) *Financial Statements Prepared in Accordance with IFRSs for the Year Ended December 31, 2010 – Auditor's Report***

- **The financial statements are prepared in accordance with IFRSs for the first time in 2010.**
- **The auditor's report refers to all periods presented.**
- **The audit is conducted in accordance with Canadian Auditing Standards and with the standards of the Public Company Accounting Oversight Board (PCAOB).**
- **The auditor's report includes an Other Matter paragraph referring to the separate report on internal control over financial reporting.**

**(Please read Introduction to Illustrative Reports)**

INDEPENDENT AUDITOR'S REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders

We have audited the accompanying financial statements of ABC Company, which comprise the statements of financial position as at December 31, 2010, December 31, 2009 and January 1, 2009, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended December 31, 2010 and December 31, 2009, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.<sup>9</sup>

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements

<sup>9</sup> See paragraph 4 of the Introduction to Illustrative Reports for Audits Conducted in Accordance with Both the CASs and PCAOB Standards

in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of ABC Company as at December 31, 2010, December 31, 2009 and January 1, 2009, and its financial performance and its cash flows for the years ended December 31, 2010 and December 31, 2009 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

#### *Other Matter*

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), ABC Company's internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated [date of auditor's report on internal control over financial reporting] expressed an unqualified opinion on ABC Company's internal control over financial reporting.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]



**5(c) Financial Statements Prepared in Accordance with US GAAP for the Year Ended December 31, 2010 – Auditor's Report**

- **The financial statements are prepared in accordance with US GAAP.**
- **The auditor's report refers to all periods presented.**
- **The audit is conducted in accordance with Canadian Auditing Standards and with the standards of the Public Company Accounting Oversight Board (PCAOB).**
- **The auditor's report includes an Other Matter paragraph referring to the separate report on internal control over financial reporting.**

**(Please read Introduction to Illustrative Reports)**

INDEPENDENT AUDITOR'S REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders

We have audited the accompanying financial statements of ABC Company, which comprise the balance sheets as at December 31, 2010 and December 31, 2009, and the statements of income, changes in shareholders' equity, comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2010, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with United States generally accepted accounting principles,<sup>10</sup> 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.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.<sup>11</sup>

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the

<sup>10</sup> The term "accounting principles generally accepted in the United States of America" is also acceptable when describing US GAAP in the auditor's report.

<sup>11</sup> See paragraph 4 of the Introduction to Illustrative Reports for Audits Conducted in Accordance with Both the CASs and PCAOB Standards.

entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of ABC Company as at December 31, 2010 and December 31, 2009, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2010 in accordance with United States generally accepted accounting principles.

#### *Other Matter*

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), ABC Company's internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated [date of auditor's report on internal control over financial reporting] expressed an unqualified opinion on ABC Company's internal control over financial reporting.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

## SUMMARY OF CHANGES TO THIS GUIDE

This section of the Guide summarizes new material, or changes to existing material, in each edition.

Highlights of the changes between the 2nd edition (September 2010) and the 3rd edition (February 2011)

- Q&A 1(b) has been revised to add a new paragraph 4 to include guidance on how the practitioner should refer to the financial reporting framework in the auditor's report when the financial statements have been prepared in accordance with pre-changeover accounting standards, and to delete the footnote to paragraph 6.
- Q&A 1(c) has been revised to add new paragraphs 8 and 9 dealing with the description in the opinion paragraph of the auditor's report of the information the financial statements are designed to present when the financial statements are prepared in accordance with Part III of the CICA Handbook - Accounting .
- Q&A 1(d) has been revised to add new paragraphs 2, providing additional guidance when reporting in accordance with this Q&A, and 11, dealing with additional references in the auditor's report. Paragraphs 9 and 10 were also revised.
- Q&A 1(g) has been revised to make an editorial change to paragraph 2 and add guidance in paragraph 7 dealing with reference to Canadian GAAP in the auditor's report when financial statements are prepared in accordance with Part III of the CICA Handbook - Accounting.
- Q&A 2(c) has been revised to add guidance on the form and content of the auditor's report on financial statements prepared in accordance with different general purpose reporting frameworks.
- Q&A 2(d) has been revised to add guidance dealing with fair presentation versus compliance financial reporting frameworks.
- Q&A 2(e), Emphasis of Matter and Other Matter Paragraphs in the Auditor's Report, has been added.
- Q&A 2(f), Dating of the Practitioner's Report, has been added.
- Illustrative Reports 1(c), 2(a), 2(b) and 2(d) have been revised to expand the paragraph after the practitioner's conclusion paragraph.
- Illustrative Reports on Special Financial Statements, Reports 3(a)-3(c), have been revised to add a reference to Q&A 2(d). The opinion and basis of accounting paragraphs in Illustrative Report 3(a) have been revised to correct an error. Illustrative Reports 3(d)-(e) have been added.
- Illustrative Reports on Financial Statements Prepared in Accordance with National Instrument 52-107, Reports 4(a)-(d), have been added.
- Illustrative Reports for Audits Conducted in Accordance with Both Canadian Auditing Standards and the Standards of the Public Company Accounting Oversight Board (United States), Reports 5(a)-(c), have been added.

**TASK FORCE ON AUDIT REPORTING IMPLICATIONS OF NEW CANADIAN AUDITING STANDARDS****Member**

Kenneth M. Krauss (Chair)

Gord Briggs

Sophie Gaudreault

Jules J. Hawkins

Claudia Leonardi

Dave Rasmussen

Jean-Francois Trepanier

Gregg Ruthman

**Organization**

Deloitte &amp; Touche LLP

Ernst &amp; Young LLP

PricewaterhouseCoopers LLP

Howie and Partners LLP

KPMG LLP

BDO Canada LLP

Raymond Chabot Grant Thornton LLP

Office of the Auditor General  
of Canada**Observer**

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Chartered Accountants