



# AUDIT REPORT CHANGES

New Standards effective  
December 15, 2018



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The information in this publication is current as of December 15, 2018.

This publication has been prepared in general terms and is based on the standards as they are currently expected to be implemented. This publication should serve as guidance only and does not replace the expertise of your professional services provider as the details provided within may not consider your specific circumstances. FCR does not accept or assume any liability or duty of care for any loss arising from reliance on this publication. Please contact the professionals at FCR if you should have any questions about your particular circumstances.



If you are currently receiving an audit opinion on your financial statements, you can expect to see big changes to the report in the upcoming year. The Accounting and Assurance Standards Board of Canada (AASB) approved a new group of standards that update the wording of the audit report to enhance the auditor's communication with financial statement users. These changes will be seen on financial statements for fiscal periods ending on or after December 15, 2018 and are meant to keep Canadian standards in-line with international auditing standards, however, some concessions have been made.

## **ORDER OF THE REPORT**

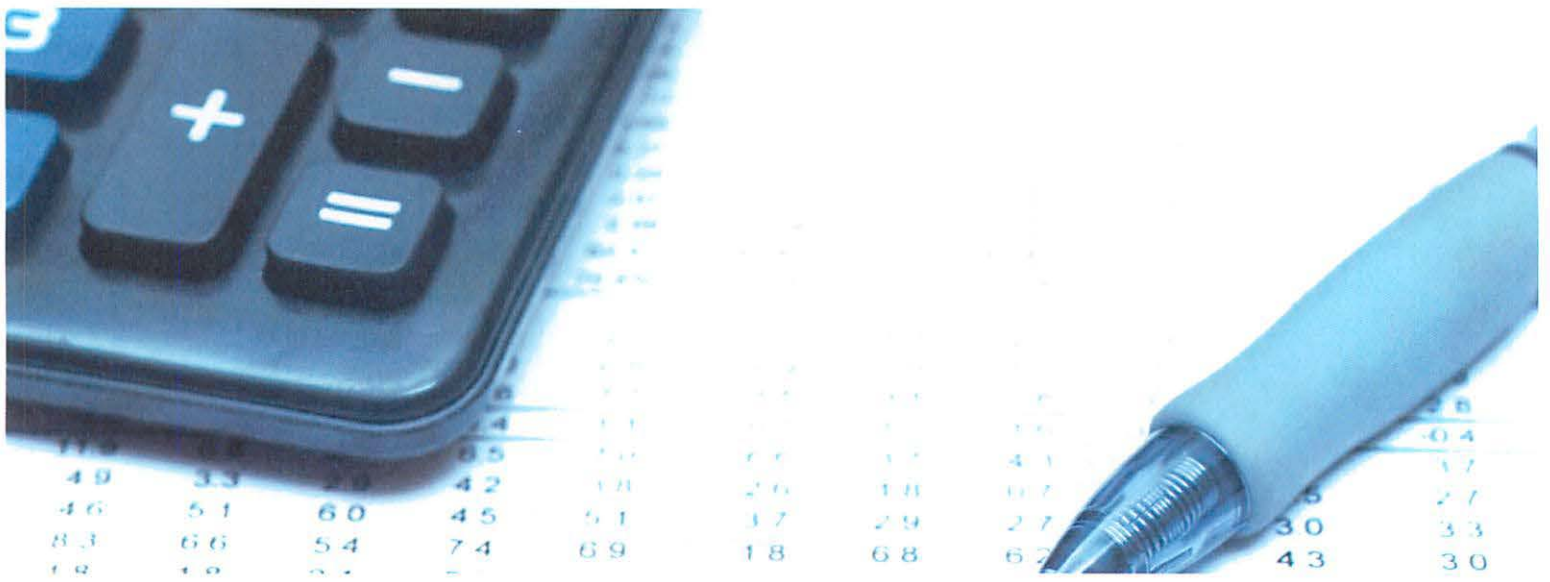
There are a number of significant changes to the auditor's report, but the most visually striking change is the order of information. The auditor's opinion will now be front and center as the first paragraph. This paragraph is followed by the basis of opinion paragraph, which explains that the audit is conducted in accordance with Canadian generally accepted auditing standards and contains an explicit statement about the auditor's independence.

## **GOING CONCERN**

If there is a material uncertainty about an entity's ability to continue as a going concern, an additional paragraph is required to be added to the auditor's report, drawing the user's attention to the note disclosure contained in the financial statements that explains this condition. Previously, this information and reference, known as an emphasis of matters paragraph, would appear at the end of the report.

## **OTHER INFORMATION**

If the entity issues other information that is related to the financial statements, such as an annual report, another paragraph is required to be included in the report that details management's and the auditor's responsibilities for the other information and the auditor's conclusion from reading this information. The auditor's opinion does not extend to this other information and no assurance is provided. The auditor must read the other information and consider if the material presented is materially inconsistent with the financial statements and report their findings in this paragraph.



## EXPANDED RESPONSIBILITY PARAGRAPHS

In recent years the audit report has evolved to include and expand on the details of what management and the auditor is responsible for as it relates to the audit of the financial statements. These upcoming changes continue with this trend by adding an explicit statement that management is responsible for assessing the entity's ability to continue as a going concern and the use of the going concern assumption in the preparation of the financial statements. An additional statement is also added to the auditor's report stating that those charged with governance are responsible for overseeing the financial reporting process.

The auditor's responsibilities section of the report has been expanded to help users understand the nature of an audit engagement and the level of assurance offered. An auditor seeks to provide reasonable assurance that the financial statements are free from material misstatement. Reasonable assurance is considered to be a high level of assurance but does not guarantee all misstatements will be detected. Because of this fact, more information is presented to understand how an auditor reaches a conclusion on the financial statements, this includes:

- The application of professional skepticism;
- The identification and assessment of the risk of material misstatement whether due to fraud or error;
- Obtaining an understanding of internal controls, and where appropriate, testing their effectiveness;

- Evaluating the appropriateness of accounting policies, reasonableness of estimates, and appropriateness of disclosures;
- Concluding on the appropriateness of management's use of the going concern assumption;
- Evaluating the overall presentation, structure, disclosures and content of the financial statements, and whether the financial statements represent the underlying transactions and achieve a fair presentation; and
- Obtaining sufficient appropriate audit evidence to express an opinion.

Clearly, communication of these additional details will result in a substantially longer audit report. The auditor has been provided an opportunity to describe their responsibilities directly in the audit report, as an appendix, or by providing a reference to a website which provides this description. This flexibility could result in differing report lengths, despite the fact that the content is the same.

Two additional statements are made relating to the communications the auditor has provided to those charged with governance throughout the audit and their purpose as well as an explicit confirmation that the auditor has complied with the relevant ethical requirements regarding independence.



## REPORT ON OTHER LEGAL OR REGULATORY REQUIREMENTS

In some rare cases, another section will be required for the auditor to communicate their responsibilities prescribed by local law, regulation or national auditing standards. This will vary depending on the content required and will be entity specific.

## KEY AUDIT MATTERS

A significant area where Canadian auditing standards will differ from international auditing standards is the lack of inclusion of key audit matters (KAMs) in the auditor's report. Under international auditing standards the auditor must include communications about the key audit matters in their report for all listed entities. The Canadian standard setters have decided that, unless the inclusion of KAMs are required by law or regulations, their inclusion in the audit report is optional. This option is to keep the Canadian audit report in line with US practices as they work through a similar project to upgrade their audit reports. Because the financial markets of the US and Canada are so integrated, it was decided that it would be best not to have significantly different standards which could cause confusion in the marketplace.

Key audit matters are, in the auditor's professional judgement, the issues of most significance to the audit of the financial statements for the current period and are intended to increase the transparency of the audit performed. An auditor will determine which issues to communicate and highlight areas with higher assessed risk of material misstatement, areas

involving significant judgement or high estimation uncertainty, and significant transactions or events occurring during the year. The description of each will describe the issue, why it is considered to be one of the most significant issues, and how the matter was addressed in the audit.

## EVALUATING THE IMPACT OF THESE CHANGES

You may be wondering what this all means. The changes that have been made to the audit report will not have a substantial impact on your experience with the audit process. The auditor may make some adjustments to their approach, may ask you some additional questions, and update their communications. The biggest change to consider is the impact of this new report on your stakeholders. A significant change to the structure and format of the report may be a cause for alarm if the readers do not expect or understand the nature of the change. Whether it is dealing with funders, bankers, or any other user of the financial statements, you should consider alerting these stakeholders to these changes to ensure there is no concern when the report is issued.

We have included a sample of the new audit report in Appendix A. Reach out to an FCR Chartered Professional Accountant today to work through the impact of these changes and discuss any questions or concerns you may have.

## APPENDIX A

### Independent Auditor's Report

To the Shareholders of ABC Company

#### Report on the Audit of the Financial Statements

##### OPINION

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

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

##### BASIS FOR OPINION

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

##### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

*A description of each key audit matter would follow and be specific to the matters encountered within the entity.*

Opinion paragraph comes first

Supported by basis of opinion

Explicit statement on independence

Appear if required by law or regulation

Auditor can include voluntarily

# APPENDIX A CONT.

## OTHER INFORMATION

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Explicit statement that those charged with governance are responsible for the financial reporting process. In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

**Included if the organization issues other information related to the financial statements**

**For Example:**

- Management Discussion and Analysis
- Annual Report

**Expanded responsibility paragraphs for both management and the auditor**

**Explicit statement that management assesses the ability to continue as a going concern**

**Explicit statement that those charged with governance are responsible for the financial reporting process**

**Description of level of assurance and limitations**

## APPENDIX A CONT.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

### Highlighted material may be included:

- in report
- in appendix to report
- where permitted by law, regulation or national auditing standards, by reference to a website of an appropriate authority

### Auditor's responsibility to evaluate management's going concern determination

### Auditor's responsibility to evaluate overall financial statement presentation

### Description of communications with Those Charged With Governance



## APPENDIX A CONT.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Paragraph included if Key Audit Matters are included in audit report**

### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

**Entity specific and dictated by law, regulation or national auditing standards**

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

**Engagement Partner's Name included for listed entities**

[Auditor Address]

[Date]