

# Explanatory Memorandum

## **Reporting on Financial Statements under Canadian Auditing Standards**

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March 2011

## Reporting on Financial Statements under Canadian Auditing Standards

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### INTRODUCTION

The Auditing and Assurance Standards Board (AASB) recently adopted, as Canadian Auditing Standards (CASs), the complete set of International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) under its Clarity project. The CASs are effective for audits of financial statements and other historical financial information for periods ending on or after December 14, 2010.

The purpose of this Explanatory Memorandum is to help stakeholders understand the:

- (a) decision-making process followed by the auditor when reporting on financial statements, and
- (b) the form of auditor's report, under the CASs. It includes discussion of the following CASs:
  - CAS 210, "Agreeing the Terms of Audit Engagements," and the related [Basis for Conclusions](#);
  - CAS 700, "The Independent Auditor's Report on General Purpose Financial Statements;" and
  - CAS 800, "Special Considerations — Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks."

Together, these CASs interact to create the audit reporting model.

This Explanatory Memorandum is not a complete discussion of all of the requirements in the CASs. The CASs must be read to obtain an understanding of all of the requirements.

It also does not address specific requirements dealing with changes to the auditor's standard report as discussed in CASs such as CAS 705, "Modifications to the Opinion in the Independent Auditor's Report," and CAS 706, "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report." However, references to these CASs are made as appropriate in this Explanatory Memorandum. Further, this Explanatory Memorandum does not address the requirements in CAS 805 "Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement," and CAS 810 "Engagements to Report on Summary Financial Statements." This Explanatory Memorandum also does not address requirements dealing with terms of the audit engagement not directly related to the audit reporting model or with written representations of management.

Readers are also referred to the following guides that may be obtained from the AASB's website:

- “Reporting Implications of New Auditing and Accounting Standards” that addresses complex reporting issues arising from changes taking place to accounting and auditing standards; and
- “Assurance Implications of the Changeover to IFRSs” that proposes guidance to auditors dealing with significant auditing and assurance matters arising from their clients' changeover from pre-changeover accounting standards to IFRSs.

## **OVERVIEW OF THE AUDIT REPORTING MODEL**

The following describes the key elements of the audit reporting model.

### **1. Identifying the purpose of the financial statements**

Financial statements can be for either general or special purposes.

- CAS 200,<sup>1</sup> paragraph A4, describes “general purpose financial statements” as financial statements prepared in accordance with a financial reporting framework designed to meet the common financial information needs of a wide range of users.
- CAS 200, paragraph A4, also describes “special purpose financial statements” as financial statements prepared in accordance with a financial reporting framework designed to meet the financial information needs of specific users.

### **2. Determining whether the applicable financial reporting framework used for preparing the financial statements is acceptable**

Under CAS 210, the objective of the auditor is to establish whether the preconditions for an audit are present.<sup>2</sup> As part of doing so, the auditor is required to determine whether the financial reporting framework, to be applied in the preparation of the financial statements, is acceptable<sup>3</sup>. CAS 210 provides guidance for determining the acceptability of financial reporting frameworks for general purpose financial statements.<sup>4</sup> CAS 800 provides guidance for determining the acceptability of financial reporting frameworks for special purpose financial statements.<sup>5</sup> (See discussion below about the expanded types of general purpose financial reporting frameworks on which the auditor is able to report, and Charts 1-4 in Appendix 1.)

### **3. Determining the acceptability of the engagement**

CAS 210 provides further requirements and guidance for acceptance of an engagement, whether for general purpose or special purpose financial statements. (See Chart 5 in Appendix 1.)

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<sup>1</sup> CAS 200, “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Canadian Auditing Standards.”

<sup>2</sup> CAS 210, paragraph 3.

<sup>3</sup> CAS 210, paragraph 6(a).

<sup>4</sup> CAS 210, paragraphs A2-A10.

<sup>5</sup> CAS 800, paragraph 8.

#### **4. Determining whether the financial reporting framework is a fair presentation framework or a compliance framework**

CAS 200 defines a “fair presentation framework” as a term that is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, and:

- 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
- 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>6</sup>

CAS 200 defines a “compliance framework” as a term that is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgments identified in (i) or (ii) above.<sup>7</sup>

#### **5. Format and wording of the auditor’s report**

Both general purpose and special purpose financial statements may be prepared in accordance with either a fair presentation or a compliance framework. Therefore, under CASs 700 and 800 there is a matrix of different forms of auditor’s report, depending on whether:

- the financial statements are general purpose or special purpose;
- the applicable financial reporting framework is acceptable or unacceptable to the auditor; and
- the applicable financial reporting framework is fair presentation or compliance.

The format and wording of the auditor’s unmodified report for each form of report in the matrix (see Chart 6 in Appendix 1) has the following key features:

- CAS 700 requires the use of subheadings to emphasize the purpose of the respective paragraphs in the auditor’s report.
- The title of the auditor’s report clearly conveys that the report is that of an independent auditor.
- An introductory paragraph:
  - identifies the entity whose financial statements have been audited;
  - states that the financial statements have been audited;
  - identifies the title of each statement that comprises the financial statements;
  - refers to the summary of significant accounting policies and other explanatory information; and
  - specifies the date or period covered by each financial statement that comprises the financial statements.
- The description of management’s responsibility indicates that it includes responsibility for such internal control as management determines is necessary to

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<sup>6</sup> CAS 200, paragraph 13(a).

<sup>7</sup> CAS 200, paragraph 13(a).

enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

- The description of the auditor's responsibility indicates that:
  - the audit was conducted in accordance with Canadian generally accepted auditing standards;<sup>8</sup>
  - those standards require that the auditor comply with ethical requirements and that the auditor 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;
  - the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances;
  - the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control; and
  - an audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as the overall presentation of the financial statements.
- 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.
- The auditor's report states that the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.
- The auditor's report must be in writing, be signed in the name of the audit firm, the personal name of the auditor, or both.
- The auditor's report must name the location in the country or jurisdiction where the auditor is located.

When describing the wording of the auditor's opinion, ISA 700 states that the auditor is required to use one of two phrases — "present fairly, in all material respects" or "give a true and fair view" — when reporting on financial statements prepared in accordance with a fair presentation framework. Both phrases have been retained in CAS 700 and other CASs. In Canada, governing legislation often requires use of, and it is generally accepted practice to use, the phrase "present fairly, in all material respects." The AASB

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<sup>8</sup> The Preface to the CICA Handbook – Assurance, paragraph 15, states: "Incorporating or other governing legislation in Canada often requires that audits of financial statements be performed in accordance with "generally accepted auditing standards, the primary source of which is the CICA Handbook." Paragraph 9 indicates that the CASs constitute GAAS for an audit of financial statements and other historical financial information. Therefore, performing an audit of financial statements in accordance with the CASs complies with such incorporating or other governing legislation."

believes that most auditors will continue to use the phrase “present fairly, in all material respects”. Further, “present fairly, in all material respects” and “give a true and fair view” when translated into French results in identical words with no discernible differences. However, one of the AASB’s goals in adopting ISAs is to enable Canadian auditors to conduct audits on an equal footing with auditors in other jurisdictions. Accordingly, the AASB concluded that it should not include amendments to delete the phrase “give a true and fair view” from the requirements in the CASs. However, it is important that illustrations provide appropriate guidance as to the wording most commonly used when reporting on the financial statements of Canadian entities in accordance with the CASs. Therefore, the AASB has amended the wording in illustrations of the auditor’s opinion in the ISAs so that throughout the CASs the opinions refer only to “present fairly, in all material respects” and no reference is made to the phrase “give a true and fair view.”

When forming an opinion and reporting on special purpose financial statements, CAS 800 requires that the auditor apply the requirements in CAS 700.<sup>9</sup> CAS 800 contains additional reporting requirements in addition to those in CAS 700:<sup>10</sup>

- In the case of financial statements prepared in accordance with the terms of a contract, the auditor is required to evaluate whether the financial statements adequately describe any significant interpretation of the contract on which the financial statements are based.
- The auditor’s report is required to also describe the purpose for which the financial statements are prepared and, if necessary, the intended users, or refer to a note in the special purpose financial statements that contains that information.
- If management has a choice of financial reporting frameworks in the preparation of the financial statements, the explanation of management’s responsibility for the financial statements is required to also make reference to its responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances.
- The auditor’s report is required to include an Emphasis of Matter paragraph alerting users of the auditor’s report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose. This paragraph is included under an appropriate heading.

Illustrations of auditors’ reports under the audit reporting model are set out in Appendix 2.

## **THE IMPLICATIONS OF THE AUDIT REPORTING MODEL IN CANADA**

As discussed above, CAS 210 requires the auditor to determine the acceptability of the financial reporting framework. Paragraphs 19 and 20 of CAS 210 also contain requirements where the auditor has determined that a financial reporting framework prescribed by law or regulation is unacceptable. Paragraph 19, for example, requires the auditor in such circumstances to accept the engagement only if management agrees to

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<sup>9</sup> CAS 800, paragraph 11.

<sup>10</sup> CAS 800, paragraphs 12-14.

provide additional disclosures in the financial statements to avoid the financial statements being misleading and the auditor's report draws attention to these additional disclosures. For the purposes of the discussion that follows, it has been assumed that the financial reporting framework is acceptable.

### **Types of acceptable general purpose financial reporting frameworks**

CAS 210 provides for a broad range of possible general purpose frameworks as depicted below. The acceptable financial reporting frameworks for general purpose financial statements under CAS 210 comprise those frameworks that:

- are established by a standard-setting organization authorized or recognized to promulgate standards that are presumed to be acceptable (referred to throughout as “GAAP”);<sup>11</sup>
- encompass financial reporting standards established by an authorized or recognized standard setting organization, with additional requirements in law or regulation relating to the preparation of financial statements (referred to throughout as “GAAP” when the requirements do not conflict with the standards, and “non-GAAP” when they do conflict);<sup>12</sup>
- are established by law or regulation, or by an other organization that is authorized to set accounting standards (such as an industry organization) that, in the absence of indications to the contrary, are presumed to be acceptable but may not be GAAP (referred to throughout as “non-GAAP”).<sup>13</sup>

In most circumstances, the applicable reporting framework, as required by an entity's incorporating legislation or by the securities legislation to which the entity is subject, will continue to be one of the accounting frameworks identified in the CICA Handbook – Accounting or the CICA Public Sector Accounting Handbook as Canadian GAAP. These accounting frameworks include International Financial Reporting Standards (IFRSs) which were adopted in Canada for financial statements for periods beginning on or after January 1, 2011. Canadian securities regulation requires most reporting issuers to prepare their financial statements in accordance with IFRSs and to describe the basis of accounting as “International Financial Reporting Standards.” The description of the financial reporting framework in the auditor's report would be consistent with the description in the financial statements.

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<sup>11</sup> CAS 210, paragraph A8.

<sup>12</sup> CAS 210, paragraph 18.

<sup>13</sup> CAS 210, paragraph A9.



statements. The guidance in paragraph CA8b<sup>14</sup> deals with the fact that certain regulations in the Canada Business Corporation Act and provincial securities acts permit entities to use IFRSs and US GAAP in certain circumstances. Being application material, this guidance does not change the requirements of the ISAs nor prevent an auditor from complying with both the CASs and the ISAs. Auditors will still be able to report on the full range of financial reporting frameworks determined as acceptable under the ISAs.

The Basis for Conclusions for CAS 210 also provides supplemental non-authoritative guidance on specific issues that auditors may encounter when using the audit reporting model for general purpose financial statements.<sup>15</sup> This guidance is set out below and reflected in the charts in Appendix 1.

14. Before the auditor can accept an engagement, CAS 210, paragraph 6(a), requires the auditor to determine whether the applicable financial reporting framework is acceptable. CAS 210, paragraphs A4 -A8, provide guidance for determining the acceptability of financial reporting frameworks for general purpose financial statements. The AASB supplemented this guidance with paragraphs CA8a and CA8b, which provide Canadian auditors with a reference point for judging the acceptability of a financial reporting framework used to prepare general purpose financial statements.
15. Where law or regulation supplements the financial reporting standards established by an authorized or recognized standard setting organization with additional requirements, the applicable financial reporting framework encompasses both aspects. CAS 210, paragraph A34, provides examples where additional requirements do not cause conflict that the auditor may find useful when assessing the adequacy of additional disclosures. These examples reinforce that the acceptable additional requirements are those that augment the identified financial reporting framework or are available within that framework. Paragraph 18 of CAS 210 requires the auditor to determine whether the additional requirements conflict with those standards before accepting the engagement. Paragraphs 18(a) and (b) of CAS 210 note that it may be possible for such a conflict to be resolved through additional disclosures in the financial statements or a change to the description of the framework. Some respondents expressed the view that such conflicts could never be properly addressed by additional disclosures. The IAASB and the AASB did not feel that it would be appropriate to rule out the possibility of disclosures addressing the conflict. It was decided that this should be a matter of professional judgment for the auditor. In some circumstances, it may well be the case that the auditor will conclude that neither additional disclosures nor a change in the description of the framework will make it possible to resolve the conflict. In such circumstances, the auditor would consider whether the nature and extent of the conflict affects the acceptability of the financial reporting framework. If the auditor determines that the financial reporting framework is acceptable, the auditor may accept the engagement but may need to issue a modified opinion (for example, if the auditor is required to report whether the financial statements are fairly presented in accordance with the financial reporting standards but, because of the conflicts between the financial reporting standards and additional requirements, the financial statements are not fairly presented). Paragraph 18 of CAS 210 requires the

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<sup>14</sup> Since CAS 210 and the related Basis for Conclusions was issued, Canadian securities regulators issued National Instrument 52-107, *Acceptable Accounting Principles and Auditing Standards*, that requires most reporting issuers to prepare financial statements in accordance with International Financial Reporting Standards. Some entities are still permitted to prepare financial statements in accordance with US GAAP.

<sup>15</sup> CAS 210 – Basis for Conclusions, paragraphs 14-19.

- auditor to determine whether a modified opinion is required by reference to CAS 705. If the auditor expects to issue a modified opinion, the auditor is required to refer to this matter in the audit engagement letter under paragraph 10(e) of CAS 210.
16. If the auditor determines that the nature and extent of the conflicts between the financial reporting standards and the requirements of law or regulation result in the financial reporting framework being unacceptable the auditor should not accept the engagement, unless required by law or regulation to do so. No auditor (including a legislative auditor) should be associated with misleading financial statements. In this circumstance, to avoid being associated with misleading financial statements, the auditor would refer to CAS 705 and modify his or her opinion accordingly.
  17. Law or regulation may prescribe a fair presentation or a compliance financial reporting framework to be used in the preparation of general purpose financial statements. Paragraph A9 of CAS 210 indicates that, in the absence of indications to the contrary, such a financial reporting framework is presumed to be acceptable for general purpose financial statements prepared by such entities. An example of “indications to the contrary” would be when the auditor determines that the financial reporting framework prescribed by law or regulation results in misleading financial statements. This will often be the case in Canada when the financial reporting framework is not one of the frameworks discussed in paragraphs CA8a or CA8b of CAS 210. When the auditor has determined that the financial reporting framework would be unacceptable but for the fact that it is prescribed by law or regulation, the auditor would not accept the engagement unless the conditions set out in paragraph 19 of CAS 210 are met.
  18. Paragraph 19(a) of CAS 210 deals with the circumstance where management agrees to provide additional disclosures in the financial statements required to avoid them being misleading. Some respondents expressed the view that misleading financial statements could never be prevented by additional disclosures. The IAASB and AASB did not feel that it would be appropriate to rule out the possibility that additional disclosures could prevent financial statements from being misleading. The IAASB and AASB concurred that whether additional disclosures can avoid the financial statements being misleading is a matter of professional judgment for the auditor, taking into account the circumstances encountered.
    - (a) In some circumstances, a financial reporting framework prescribed by law or regulation, together with additional disclosures, may result in financial statements that are not misleading. If the auditor determines that the additional disclosures do avoid the financial statements being misleading, the auditor would be able to accept the engagement and issue a clean opinion. However, paragraph 19(b)(ii) of CAS 210 prohibits the use of the phrase “present fairly” in the auditor’s opinion, unless the auditor is required by law or regulation to do so, because the financial reporting framework in these circumstances could not have the characteristics of a fair presentation framework.
    - (b) Auditors may well encounter circumstances when a financial reporting framework prescribed by law or regulation is not one of the financial reporting frameworks described in paragraphs CA8a or CA8b of CAS 210 and, in the professional judgment of the auditor, the deficiencies in the financial reporting framework are so significant that additional disclosures will not rectify the inappropriate accounting in the financial statements. If the auditor has a choice, he or she would not accept the engagement in such circumstances.



## **“Fair presentation” and “compliance” financial reporting frameworks and the form of auditor’s report**

CAS 200 defines fair presentation and compliance financial reporting frameworks.<sup>16</sup> While the definition of a fair presentation framework in CAS 200 is fairly straight forward, in certain circumstances, the auditor may have to use professional judgment in deciding when a financial reporting framework should be referred to as a fair presentation framework in the auditor’s report.

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. When, for example, a financial reporting framework:

- is not established by such an organization, or
  - 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.

It is a necessary feature of a fair presentation framework that it include one of the acknowledgments in paragraph 13(a) of CAS 200. When a financial reporting framework is based on a financial reporting framework set out in the CICA Handbook – Accounting and the CICA Public Sector Accounting Handbook, it can usually be presumed that it contains one of these acknowledgments. In Canada, such acknowledgments can be found in the CICA Handbook – Accounting as follows:

- (a) paragraphs 15, 17(c) and 19-24 of IAS 1 *Presentation of Financial Statements* 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) Section 4600, *Pension Plans*, in 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 acknowledgments for Part IV are the respective acknowledgments 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 the pre-changeover standards in Part V.

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<sup>16</sup> CAS 200, paragraph 13(a).

For entities that apply Canadian public sector accounting standards, the acknowledgments 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 one of these financial reporting frameworks it is much less likely that such a framework contains such acknowledgments.

However, the CASs recognize that even when a framework does contain the acknowledgments referred to in paragraph 13(a) of CAS 200, this is not necessarily sufficient for the financial reporting framework to be a fair presentation framework. For example, paragraph 19 of CAS 210 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 13(a) of CAS 200). Similarly, paragraph A3 of CAS 800 states that a special purpose framework may not be a fair presentation framework even if the financial reporting framework on which it is based is a fair presentation framework. This is because the special purpose framework may not comply with all the requirements of the financial reporting framework established by the authorized or recognized standard-setting organization or by law or regulation that are necessary to achieve fair presentation of the financial statements.

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.

The differences in the form of auditor's report between a fair presentation framework and a compliance framework can be summarized as follows:

- The statement of management's responsibility for the financial statements refers to "the preparation and fair presentation of the financial statements" instead of "preparation".
- The description of the audit in the auditor's report refers to "the preparation and fair presentation of the financial statements" instead of "preparation".
- The opinion paragraph in the auditor's report states that the financial statements present fairly, in all material respects, in accordance with the applicable financial reporting framework (unless otherwise required by law or regulation). In all other cases, the opinion paragraph states that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

These differences are highlighted in the illustrations of auditors' reports provided in Appendix 2.

## APPENDIX 1: OVERVIEW OF THE REPORTING MODEL

Chart 1: Determining Acceptability of Framework for General Purpose Financial Statements — CAS 210

The financial statements may be prepared in accordance with a financial reporting framework designed to meet the common financial information needs of a wide range of users (i.e., “general purpose financial statements” prepared in accordance with a “general purpose framework”). The following chart explains the types of general purpose frameworks discussed in CAS 210

Type of Framework	Criteria for Acceptability	Auditor Action
Financial reporting standards established by organizations that are authorized or recognized to promulgate standards to be used by certain types of entities. <b>CAS 210, paragraphs A8, CA8a and CA8b</b>	Presumed to be acceptable provided the organizations follow an established and transparent process involving deliberation and consideration of the views of a wide range of stakeholders. <b>CAS 210, paragraph A8</b>	May accept engagement if other preconditions are met – go to Chart 5, framework 1
Financial reporting framework encompassing financial reporting standards established by an authorized or recognized standards setting organization for general purpose financial statements with additional requirements in law or regulation relating to the preparation of financial statements. <b>CAS 210, paragraph A34</b>	Presumed to be acceptable provided additional requirements do not conflict with the identified financial reporting framework. <b>CAS 210, paragraph A34</b>	May be an acceptable framework – go to Chart 3
Law or regulation prescribing the financial reporting framework to be used in the preparation of general purpose financial statements for certain types of entities. <b>CAS 210, paragraph A9</b>	In the absence of indications to the contrary, such a financial reporting framework is presumed to be acceptable for general purpose financial statements prepared by such entities. <b>CAS 210, paragraph A9</b>	May be an acceptable framework – go to Chart 4
When an entity is registered or operating in a jurisdiction that does not have an authorized or recognized standards setting organization, or where use of the financial reporting framework is not prescribed by law or regulation, a financial reporting framework identified by management. <b>CAS 210, paragraph A10</b>	Not acceptable because Canada is a jurisdiction that has an authorized or recognized standard setting organization.	Do not accept engagement

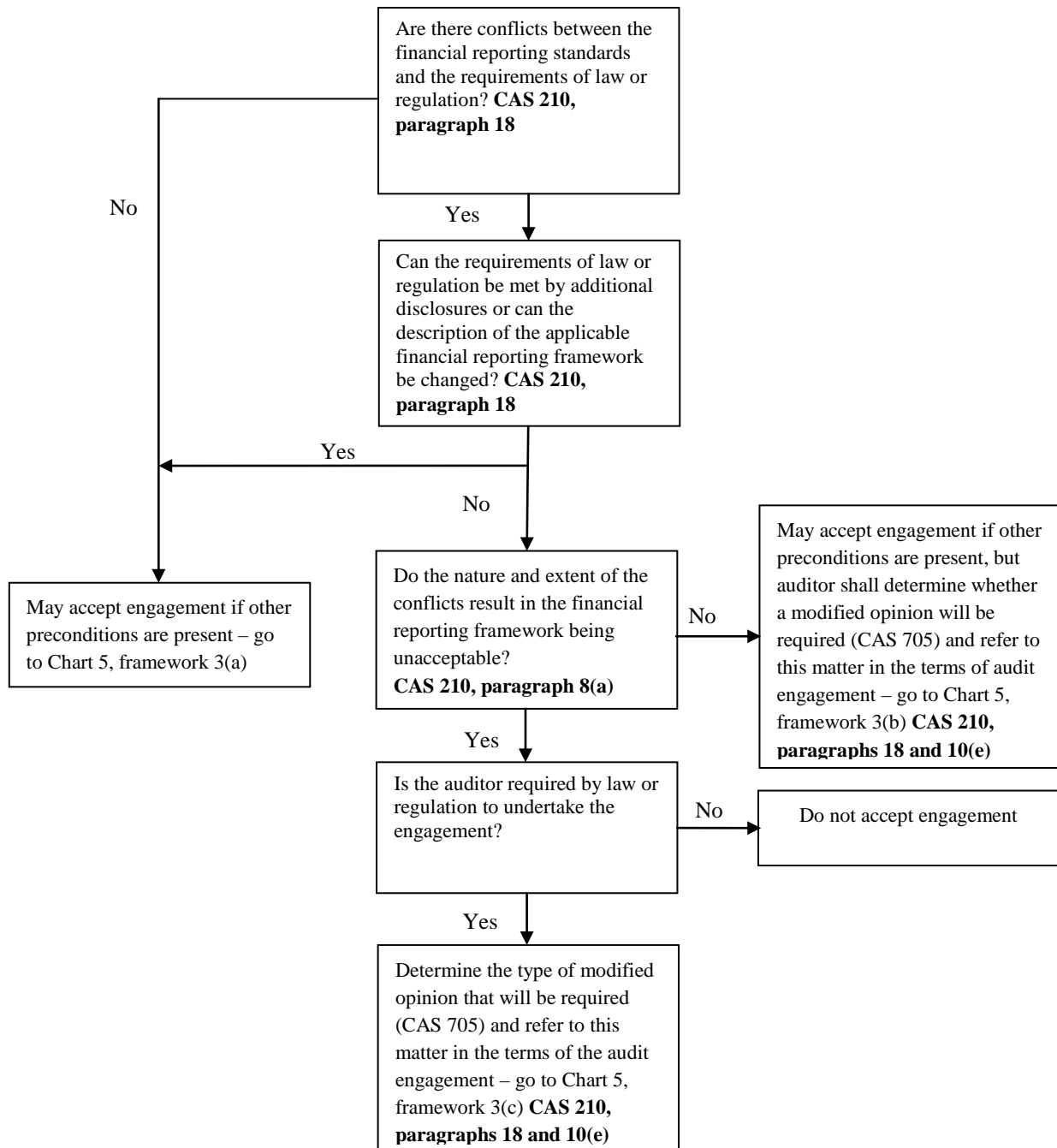
## Chart 2: Determining Acceptability of Framework for Special Purpose Financial Statements — CAS 800

The financial statements may be prepared to meet the financial information needs of specific users (i.e., “special purpose financial statements” prepared in accordance with a “special purpose framework”). The following chart explains the types of special purpose frameworks discussed in CAS 800.

<b>Type of Framework</b>	<b>Criteria for Acceptability</b>	<b>Auditor Action</b>
Financial reporting standards established by organizations that are authorized or recognized to promulgate standards for special purpose financial statements. <b>CAS 800, paragraph A6</b>	Presumed to be acceptable provided the organizations follow an established and transparent process involving deliberation and consideration of the views of relevant stakeholders. <b>CAS 800, paragraph A6</b>	May accept engagement if other preconditions are met – go to Chart 5, framework 2(a)
Financial reporting framework encompassing financial reporting standards established by an authorized or recognized standard setting organization for special purpose financial statements with additional requirements in law or regulation relating to the preparation of financial statements. <b>CAS 800, paragraph A7</b>	Presumed to be acceptable provided additional requirements do not conflict with the identified financial reporting framework. <b>CAS 800, paragraph A7</b>	CAS 800, paragraph A7, refers the auditor to CAS 210, paragraph 18, which requires the auditor to determine whether any conflicts exist – go to Chart 3
Law or regulation prescribing the financial reporting framework to be used in the preparation of special purpose financial statements for a certain type of entity. <b>CAS 800, paragraph A6</b>	In the absence of indications to the contrary, such a financial reporting framework is presumed to be acceptable for special purpose financial statements prepared by such entity. <b>CAS 800, paragraph A6</b>	May be an acceptable framework – go to Chart 4
The financial reporting framework encompasses the financial reporting provisions of a contract, or sources other than those described above. <b>CAS 800, paragraph A8</b>	Acceptability determined by considering whether the framework exhibits attributes normally exhibited by acceptable financial reporting frameworks as described in Appendix 2 of CAS 210. <b>CAS 800, paragraph A8</b>	May accept engagement if other preconditions are met – go to Chart 5, framework 2(b)

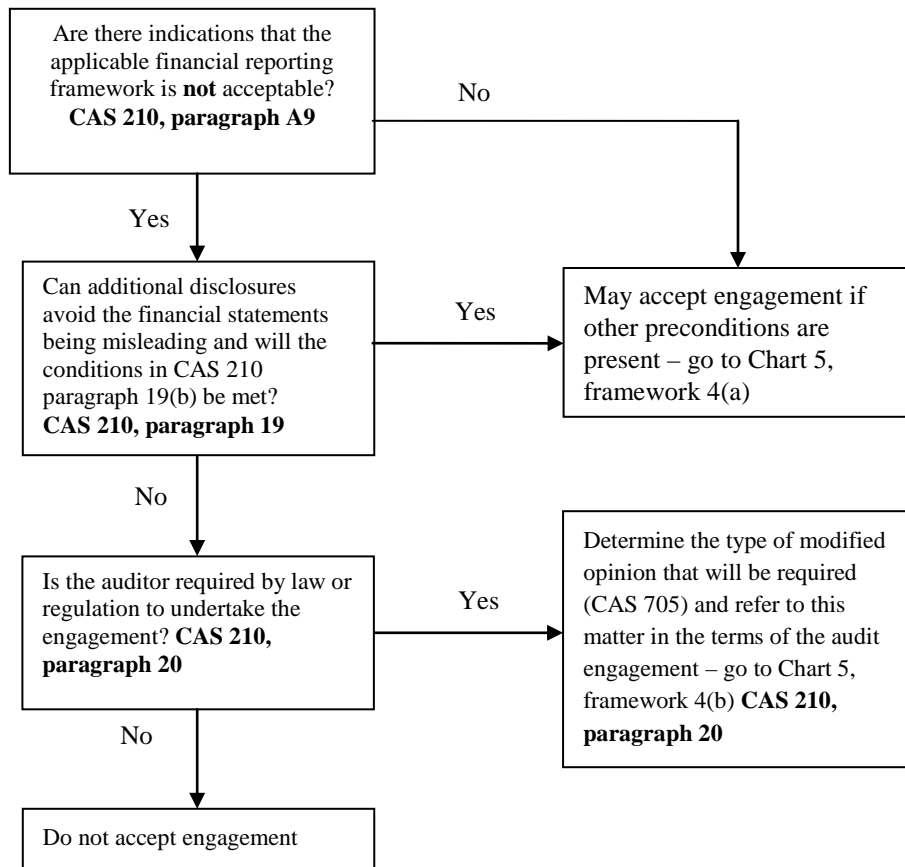
### Chart 3: Determining Acceptability of Framework When Law or Regulation Supplements Financial Reporting Standards — CAS 210

CAS 210 recognizes that law or regulation may supplement financial reporting standards established by organizations authorized or recognized to promulgate standards following an established and transparent process involving deliberation and consideration of the views of a wide range of stakeholders. CAS 800 also recognizes this type of framework for special purpose financial statements. The following chart explains the logic flow with respect to this type of financial reporting framework.



## Chart 4: Determining Acceptability of Legal or Regulatory Framework — CAS 210

CAS 210 recognizes that law or regulation may prescribe that financial statements be prepared in accordance with a financial reporting framework other than financial reporting standards. CAS 800 also recognizes this type of framework for special purpose financial statements. The following chart explains the logic flow with respect to this type of financial reporting framework.



## Chart 5: Impact on Engagement Acceptance — CAS 210

CAS 210 contains preconditions for an audit (including the condition that the financial reporting framework is acceptable) that must be met before the auditor can accept the engagement.

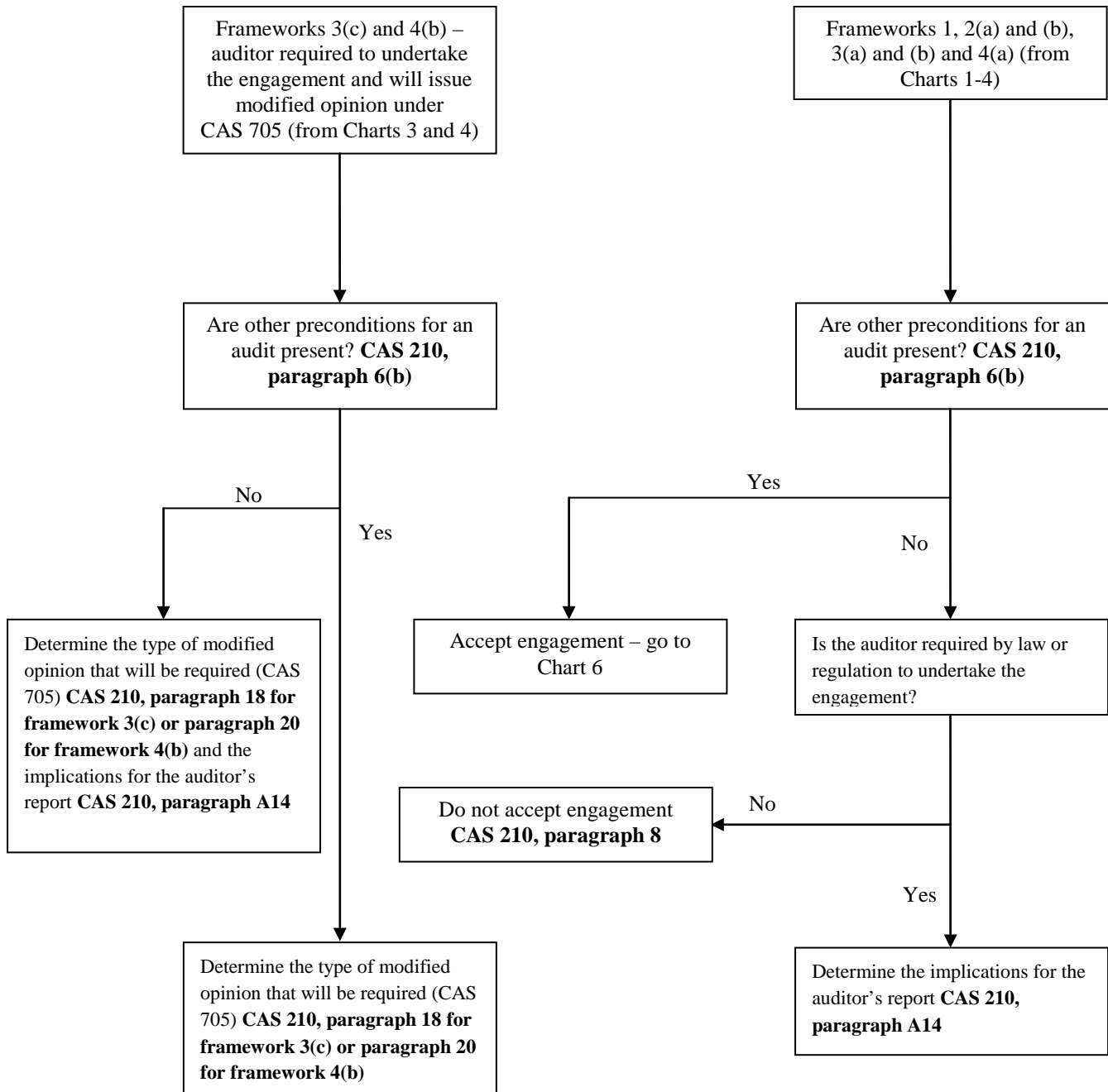


Chart 6: Type of Auditor’s Report — CASs 700 and 800

P U R P O S E		<b>Acceptable Framework</b>		<b>Engagement under CAS 210, paragraph 19 (Chart 4)<sup>1</sup></b>
		FPF	Compliance	Compliance
	<b>General</b>	GAAP: Standard Report “Fairly Presents” <b>(Appendix 2, Illustration 1)</b>	Compliance Report “Prepared in accordance” <b>(Appendix 2, Illustration 2)</b>	Compliance Report “Prepared in accordance” plus Emphasis of Matter paragraph <b>A</b> <b>(Appendix 2, Illustration 3)</b>
	<b>Special</b>	Special Purpose “Fairly Presents” plus Emphasis of Matter paragraph <b>B (Appendix 2, Illustration 4)</b>	Special Purpose Compliance Report “Prepared in accordance” plus Emphasis of Matter paragraph <b>B</b> <b>(Appendix 2, Illustrations 5)</b>	Special Purpose Compliance Report “Prepared in accordance” plus Emphasis of Matter paragraph <b>A</b> and Emphasis of Matter paragraph <b>B</b> <b>(Appendix 2, Illustration 6)</b>

Frameworks:

FPF                      Fair Presentation Framework **CAS 200, paragraph 13**

Compliance        Compliance Framework **CAS 200, paragraph 13**

Emphasis of Matter Paragraphs:

- A** Paragraph relating to additional disclosures provided by management in the financial statements that are required to avoid the financial statements being misleading.
- B** Paragraph alerting users of the auditor’s report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose.

<sup>1</sup> FRF would be unacceptable but for the fact that it is prescribed by law or regulation and the conditions in CAS 210, paragraph 19, are met.

## **APPENDIX 2: ILLUSTRATIONS OF AUDITORS' REPORTS UNDER THE AUDIT REPORTING MODEL**

- Illustration 1: An auditor's report on a complete set of general purpose financial statements prepared in accordance with International Financial Reporting Standards.
- Illustration 2: An auditor's report on a complete set of general purpose financial statements prepared in accordance with the financial reporting framework set out in law that the auditor determines to be an acceptable compliance financial reporting framework.
- Illustration 3: An auditor's report on a complete set of general purpose financial statements prepared in accordance with the accounting requirements prescribed by a regulator where the auditor accepted the engagement in accordance with CAS 210, paragraph 19.
- Illustration 4: An auditor's report on a complete set of special purpose financial statements prepared in accordance with the financial reporting provisions of a contract that is a fair presentation framework.
- Illustration 5: An auditor's report on a complete set of special purpose financial statements prepared in accordance with a financial reporting framework chosen by management to respond to a request for information from a creditor that the auditor determines to be an acceptable financial reporting framework.
- Illustration 6: An auditor's report on a complete set of special purpose financial statements prepared in accordance with the accounting requirements prescribed by a regulator where the auditor accepted the engagement in accordance with CAS 210, paragraph 19.

## General Purpose — Fair Presentation Framework — International Financial Reporting Standards<sup>1</sup>

### Illustration 1:

Circumstances include the following:

- **Audit of a complete set of financial statements.**
- **The financial statements are prepared for a general purpose by the management of the entity in accordance with International Financial Reporting Standards.**
- **The auditor's report refers to the current period only.**
- **The terms of the audit engagement reflect the description of management's responsibility for the financial statements in CAS 210.**

### 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, 20X1, 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<sup>2</sup> 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, 20X1, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

<sup>1</sup> Refer to the CICA Guide, "Reporting Implications of New Auditing and Accounting Standards," for guidance on the form of auditor's report when financial statements are prepared under other accounting frameworks in the CICA Handbook – Accounting or the CICA Public Sector Accounting Handbook.

<sup>2</sup> Underlining has been provided to help readers identify differences in the wording of the auditor's report as between Illustration 1 and the other illustrations.

## General Purpose — Compliance Framework

### Illustration 2:

Circumstances include the following:

- **Audit of a complete set of financial statements required by law or regulation.**
- **The financial statements are prepared for a general purpose by the management of the entity in accordance with the financial reporting framework set out in the XYZ Act of Canada (i.e., a financial reporting framework, encompassing law or regulation, designed to meet the common financial information needs of a wide range of users, but which is not a fair presentation framework).**
- **The auditor's report refers to the current period only.**
- **The terms of the audit engagement reflect the description of management's responsibility for the financial statements in CAS 210.**

### 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, 20X1, and the income statement, statement of changes in equity and cash flow statement 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 of these financial statements in accordance with XYZ Act of Canada, 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 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 of ABC Company for the year ended December 31, 20X1 are prepared, in all material respects, in accordance with XYZ Act of Canada.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

## General Purpose — Engagement accepted in accordance with CAS 210, paragraph 19

### Illustration 3:

Circumstances include the following:

- Audit of a complete set of financial statements required by law or regulation.
- The financial statements are prepared for a general purpose by the management of the entity in accordance with the accounting requirements prescribed by a regulator (i.e., a financial reporting framework, encompassing law or regulation, designed to meet the common financial information needs of a wide range of users, but which is not a fair presentation framework).
- The auditor has concluded that the financial reporting framework is unacceptable but for the fact that it is prescribed by law or regulation and has accepted the engagement because the conditions in CAS 210, paragraph 19, have been met.
- The auditor's report refers to the current period only.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in CAS 210.

### 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, 20X1, and the income statement, statement of changes in equity and cash flow statement 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 of these financial statements in accordance with the accounting requirements of section Y of regulation Z, 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 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 of ABC Company for the year ended December 31, 20X1 are prepared, in all material respects, in accordance with the accounting requirements of section Y of regulation Z.

#### Emphasis of Matter

[Paragraph drawing users' attention to the additional disclosures provided by management in the financial statements required to avoid the financial statements being misleading.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

## Special Purpose — Fair Presentation Framework — Contract

### Illustration 4:

Circumstances include the following:

- Audit of a complete set of financial statements.
- The financial statements are prepared by the management of the entity in accordance with the financial reporting provisions of a contract (i.e., a special purpose framework) to comply with the provisions of that contract. The applicable financial reporting framework is a fair presentation framework. Management does not have a choice of financial reporting frameworks.
- The auditor's report refers to the current period only.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in CAS 210.

### 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, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management of ABC Company based on the financial reporting provisions of section Z of the contract dated January 1, 20X1 between ABC Company and DEF Company ("the contract").

#### 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 Z of the contract and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### 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, 20X1, and its financial performance and its cash flows for the year then ended in accordance with the financial reporting provisions of section Z of the contract.

#### Basis of Accounting and Restriction on Use [and 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 referred to above. 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.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

## Special Purpose — Compliance Framework — Management Specified Framework

### Illustration 5:

Circumstances include the following:

- **Audit of a complete set of financial statements.**
- **The financial statements are prepared by the management of the entity in accordance with a financial reporting framework other than Canadian GAAP (i.e., a financial reporting framework designed to meet the financial information needs of specific users, but which is not a fair presentation framework) to respond to a request for such information from a creditor (i.e., a specific purpose). Management has a choice of financial reporting frameworks.**
- **The auditor's report refers to the current period only.**
- **The terms of the audit engagement reflect the description of management's responsibility for the financial statements in CAS 210.ms**

### 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, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management of ABC Company for the purpose of providing information to XYZ Creditor.

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

Management is responsible for the preparation of these financial statements in accordance with the basis of accounting described in Note X, determining that the described framework is acceptable in the circumstances, 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 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 of ABC Company for the year ended December 31, 20X1 are prepared, in all material respects, in accordance with the basis of accounting described in Note X.

#### **Basis of Accounting and Restriction on Use [and 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 for the purpose of providing information to XYZ Creditor. As a result, the financial statements may not be suitable for another purpose. [Our report is intended solely for ABC Company and XYZ Creditor and should not be distributed to or used by parties other than ABC Company or XYZ Creditor.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

## Special Purpose — Engagement accepted in accordance with CAS 210, paragraph 19

### Illustration 6:

Circumstances include the following:

- **Audit of a complete set of financial statements required by law or regulation.**
- **The financial statements are prepared for a special purpose by the management of the entity in accordance with the accounting requirements prescribed by a regulator (i.e., a financial reporting framework, encompassing law or regulation, designed to meet the special financial information of specific users, but which is not a fair presentation framework) to meet the requirements of that regulator. Management does not have a choice of financial reporting frameworks.**
- **The auditor has concluded that the financial reporting framework is unacceptable but for the fact that it is prescribed by law or regulation and has accepted the engagement because the conditions in CAS 210, paragraph 19, have been met.**
- **The auditor's report refers to the current period only.**
- **The terms of the audit engagement reflect the description of management's responsibility for the financial statements in CAS 210.**

### 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, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management of ABC Company based on the accounting requirements of section Y of regulation Z.

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

Management is responsible for the preparation of these financial statements in accordance with the accounting requirements of section Y of regulation Z, 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 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 of ABC Company for the year ended December 31, 20X1 are prepared, in all material respects, in accordance with the accounting requirements of section Y of regulation Z.

#### Emphasis of Matter

[Paragraph drawing users' attention to the additional disclosures provided by management in the financial statements required to avoid the financial statements being misleading.]

#### Basis of Accounting Restriction on Use [and Distribution]

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

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]