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# Audit 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.

Auditors 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 audit reports. The AASB formed a Task Force to develop guidance that will address complex audit 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. Earlier application is permitted. Parts II and IV are effective for annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted. Part III has yet to be completed and its effective date has yet to be determined. 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 Public Sector Accounting Board (PSAB) is also making changes to its standards and clarifying which standards apply to government organizations. For example, government business enterprises will be required to follow IFRSs for periods beginning on or after January 1, 2011. The CICA Public Sector Accounting Handbook contains the accounting standards for federal, provincial, territorial and local governments. The existing category of government business-type organizations in the CICA Public Sector Accounting Handbook will cease to exist and become categorized as other government organizations. Other government organizations will be 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. PSAB is also proposing to bring government not-for-profit organizations into its Handbook.

## 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 audit reports by providing guidance with respect to commonly occurring circumstances. This Guide does not amend or override auditing standards, the texts of which alone are authoritative. 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 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 auditors understand and apply requirements and supporting guidance issued by the AASB relating to audit reporting.

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## QUESTIONS & ANSWERS

### 1. 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 existing auditing standards;<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.

## 2. 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?***

1. 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>
  
2. 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 are registrants in the securities markets in other jurisdictions are often required to report compliance with "International Financial Reporting Standards as issued by

<sup>3</sup> See, for example, IAS 1 *Presentation of Financial Statements*, paragraph 16, in Part I, and *General Standards of Financial Statement Presentation*, paragraph 1400.16, in Part II, of the CICA Handbook – Accounting.

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. Using the phrase “International Financial Reporting Standards” in the auditor’s report would result in compliance with Canadian securities legislation. 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.

3. 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 and the CICA Public Sector Accounting Handbook, the above principles 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 has been taken for the other financial reporting frameworks in the CICA Handbook – Accounting.
4. This approach to 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 or review 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 Section 8200, *Public Accountant’s Review of Financial Statements*, (for example, when an entity early adopts a new financial reporting framework such as IFRSs or accounting standards for private enterprises).

### 3. COMPARATIVE INFORMATION AND ITS EFFECT ON THE AUDITOR'S REPORT

#### 3A What is the difference between “comparative financial statements” and “corresponding figures” under the CASSs?

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 the 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.)

**3B 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?**

8. The distinction between the two approaches discussed in Q&A 3A 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).

**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**

9. The auditor may be responsible for reporting on all financial statement periods presented (for example, if the entity is a reporting issuer), or the auditor may have agreed to undertake an engagement to report on all financial statements presented, when such financial statements are prepared in accordance with a new financial reporting framework (for example, IFRSs or accounting standards for private enterprises). If so, 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 3A.
10. 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.
11. 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.
12. 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. (See Illustrative Report 1(b) in this Guide for an example of an auditor's report that extends to the comparative financial statements.)

**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**

13. 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.

14. When the auditor's report refers to the current period only, using the audit reporting approach for corresponding figures discussed in Q&A 3A, 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.
15. 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.
16. There are two possible courses of action:
  - (a) The auditor can be engaged to issue only an audit opinion on the current period's financial statements. 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 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:
    - (i) the corresponding figures are marked as unaudited; or
    - (ii) the notes to the financial statements indicate that the auditor has not audited, and does not express an opinion on, the corresponding figures.(See Illustrative Report 1(c) in this Guide when the auditor's report does not extend to the corresponding figures.)
  - (b) Alternatively, the auditor 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 auditor's opinion extends to each financial statement period presented. (Refer to paragraphs 9-12 above.)
17. Paragraph 14 of CAS 710 also indicates that a statement in an Other Matter paragraph referred to in paragraph 16(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.

#### 4. 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 Terms of the Audit Engagement*, 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 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 currently exist as differential reporting options, 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.

## 5. 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.

## 6. 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 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. The following paragraphs provide references to the requirements of IFRSs and accounting standards for private enterprises and the related audit opinion wording.

### International Financial Reporting Standards

4. IAS 1, *Presentation of Financial Statements*, paragraph 15 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 3: "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

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 3: "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."

## 7. 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 also make reference to Canadian GAAP and, if so, how should this reference be made in the auditor's report?*

### Background

1. The Introduction to each Part of the CICA Handbook – Accounting indicates 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>

[This Question will be addressed in a future issue of the Guide.]

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<sup>4</sup> See, for example, the Introduction to Part I, paragraph I.10, in Part I of the CICA Handbook – Accounting.

## ILLUSTRATIVE REPORTS

### INTRODUCTION TO ILLUSTRATIVE REPORTS

1. These Illustrative Reports reflect the principles discussed in Q&A 2 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.

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&A 3 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
- 1(b) IFRSs Are Adopted on the Effective Date — Auditor's Report Refers to Each Period for which Financial Statements are Presented
- 1(c) IFRSs Are Adopted on the Effective Date — Auditor's Report Refers to the Current Period Only

**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 2 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, 2008. 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 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, *Comparative Information — Corresponding Figures and Comparative Financial Statements*, 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 corresponding figures are unaudited in an Other Matter 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.

## 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.

*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 equity 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]

## 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
- 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
- 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
- 2(d) Accounting Standards for Private Enterprises Are Adopted on the Effective Date — Auditor's Report Refers to the Current Period Only

**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.
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 2 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.

We have not audited, and do not express an opinion on, 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.

[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 corresponding figures are not marked as audited or reviewed**
- **The fact that the corresponding figures are neither audited nor reviewed is not disclosed in the notes to 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.
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 2 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.

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, are 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 corresponding figures are unaudited in an Other Matter 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.

## 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.

*Other Matter*

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, are unaudited.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

**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

Christine Regimbal

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**Staff**

Eric R. Turner

The Canadian Institute of  
Chartered Accountants