

Navigating the Auditor Reporting Journey

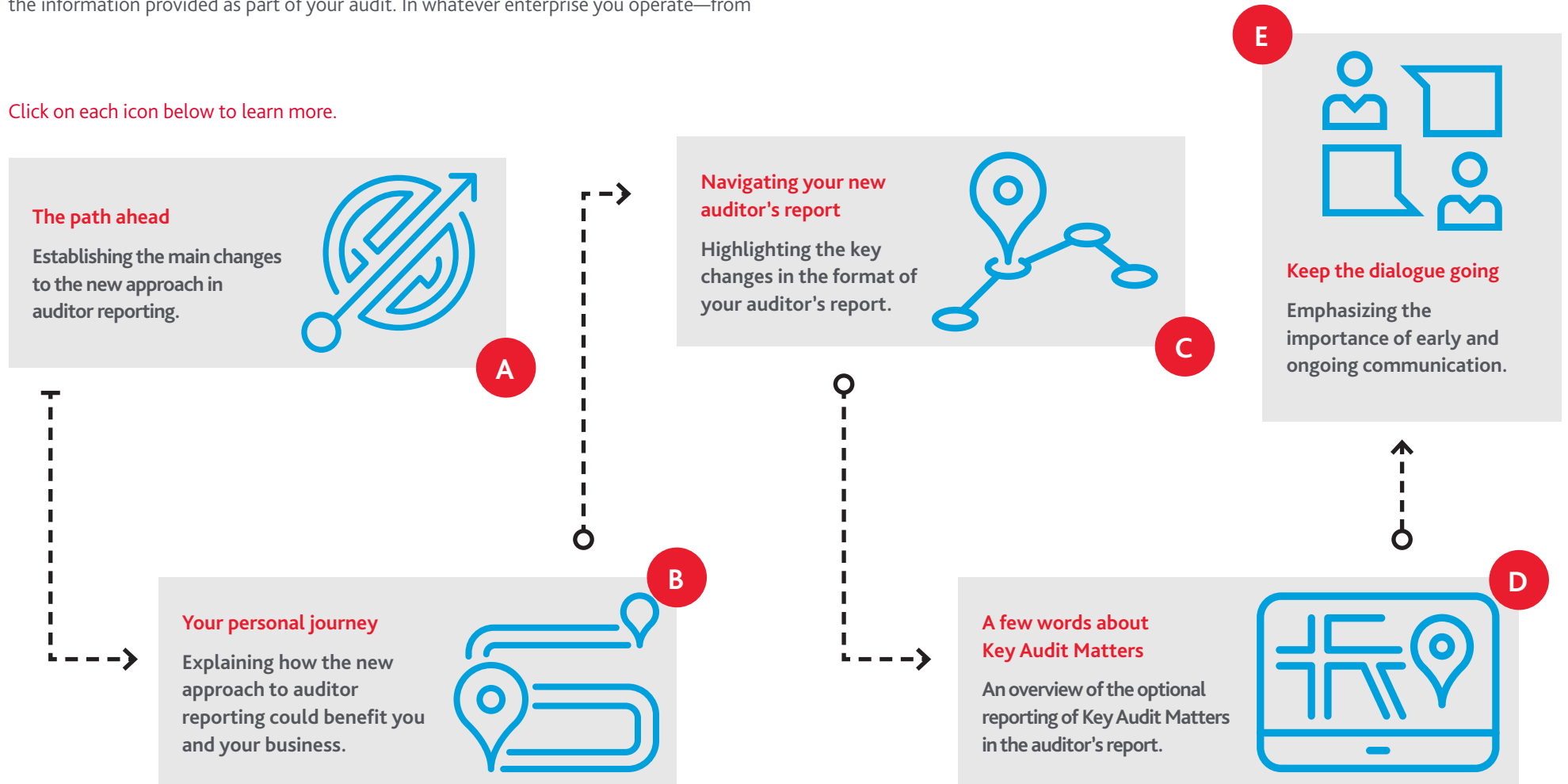


Navigating the Auditor Reporting Journey

As Canada continues its commitment to adopting international standards on auditing, of particular significance are new and revised auditor reporting standards that become effective for audits of financial statements for periods ending on or after December 15, 2018. In this publication, we outline how the upcoming changes to auditor reporting can improve the information provided as part of your audit. In whatever enterprise you operate—from

start-up to multi-national corporation, whether private, public, or not-for-profit—and whether you fulfil the role of “management” or “those charged with governance”, auditor reporting changes will affect the style, format and content of the auditor’s report. This will provide more transparency over the audit process. Click on each icon below to learn more.

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The Path Ahead

Establishing the main changes to the new approach to auditor reporting.

Headline Changes

The recently revised Canadian Auditing Standards (CASs) issued by Canada's Auditing and Assurance Standards Board (AASB) are the beginning of a new era in auditor reporting.

The new standards were designed for the unique aspects of the Canadian environment, and with the ultimate objective of providing you and other stakeholders with more useful information—by focusing on the key output from the audit process—the auditor's report.

Headline changes, which will help improve the communicative value of the auditor's report, include:

- Placing the **opinion section** at the beginning of the report.
- Revised format and structure of the **auditor's report**.
- Enhanced reporting on **going concern** matters—including a separate section when there is a material uncertainty relating to going concern.
- Emphasizing the **nature of the audit** and the role and responsibilities of your **auditors**.
- Including an explicit statement about your auditor's **independence** in accordance with relevant ethical standards.
- Emphasizing the importance of the annual report (or similar document) and your auditor's work performed on such **other information**.
- Providing enhanced descriptions about the responsibilities of **management**, and **those charged with governance** where applicable.
- Voluntary reporting of key audit matters.
- For listed entities, disclosure of the name of your **engagement partner**

Why Change Now?

For stakeholders, investors and other users of the financial statements, the planned changes to the auditor's report represent an opportunity to increase confidence in the audit process and the financial statements.

Potential benefits

- Increased transparency of the audit process.
- Improved clarity of communications between auditors and investors as well as those charged with governance.
- A greater focus by management and those charged with governance on the other information provided in the annual report (or similar document) alongside the financial statements.
- Enhanced quality and value of the audit through more focused professional skepticism.

While the CASs are prescriptive about the layout of the new auditor's report, these reforms have been designed to move auditors away from providing a "boilerplate" approach to auditor reporting, and have instead encouraged a drive towards greater transparency, specificity and relevance in terms of how the auditor's views are presented. The demands of stakeholders, investors and other users of the financial statements with respect to the format, layout and level of detail in auditor reports may ultimately lead to more innovation in terms of how information is presented by audit firms.

At BDO we support this new approach to auditor reporting in order to highlight the value associated with an audit and recognize the importance of working closely with our clients during this period of change.

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Your Personal Journey

Explaining how the new approach to auditor reporting could benefit you and your business.

How will the immediate changes to auditor reporting help you?

If you are managing the entity:

Area of auditor reporting	Potential benefits for management
Going concern	Your auditor's report will now include a more detailed description of your responsibilities relating to going concern, which will help provide transparency about the extent of your role in comparison to auditors and those charged with governance.
Other information	The new requirements relating to other information will provide greater clarity about the documents (such as the annual report) included within the scope of "other information." Auditors will be available to identify the information that comprises the annual report (or similar document) and discuss when they can obtain this information to perform their audit procedures on a timely basis.

If you are one of the individuals charged with governance of an entity:

Area of auditor reporting	Potential benefits for management
Auditor independence	<p>Of relevance to your role of monitoring the work and independence of the external auditor, you will see an affirmative statement in the new auditor's report about the auditor's independence and fulfilment of relevant ethical responsibilities.</p> <p>If your role includes determining annually or regularly whether your auditor is independent in line with relevant codes and local laws and regulations, this change may provide further opportunities to monitor, assess and (where relevant) pre-approve:</p> <ul style="list-style-type: none"> • Non-audit services provided by your entity's auditors. • Independence of your auditor when nominating auditors for appointment or re-appointment.
Going concern	<p>Changes to the report now clarify management's responsibilities for going concern, and provide a greater transparency in relation to:</p> <ul style="list-style-type: none"> • Management's assessment about the entity's ability to continue as a going concern. This is not a new responsibility, but there is increased focus on this in the revised CASs, which means that auditors will certainly be looking at this more closely and provide greater insight into this area. • The qualitative nature of going concern disclosures provided by management in the financial statements (particularly when "close call" situations exist in the entity).

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Navigating Your New Auditor's Report

Highlighting the key changes in the format of your auditor's report.

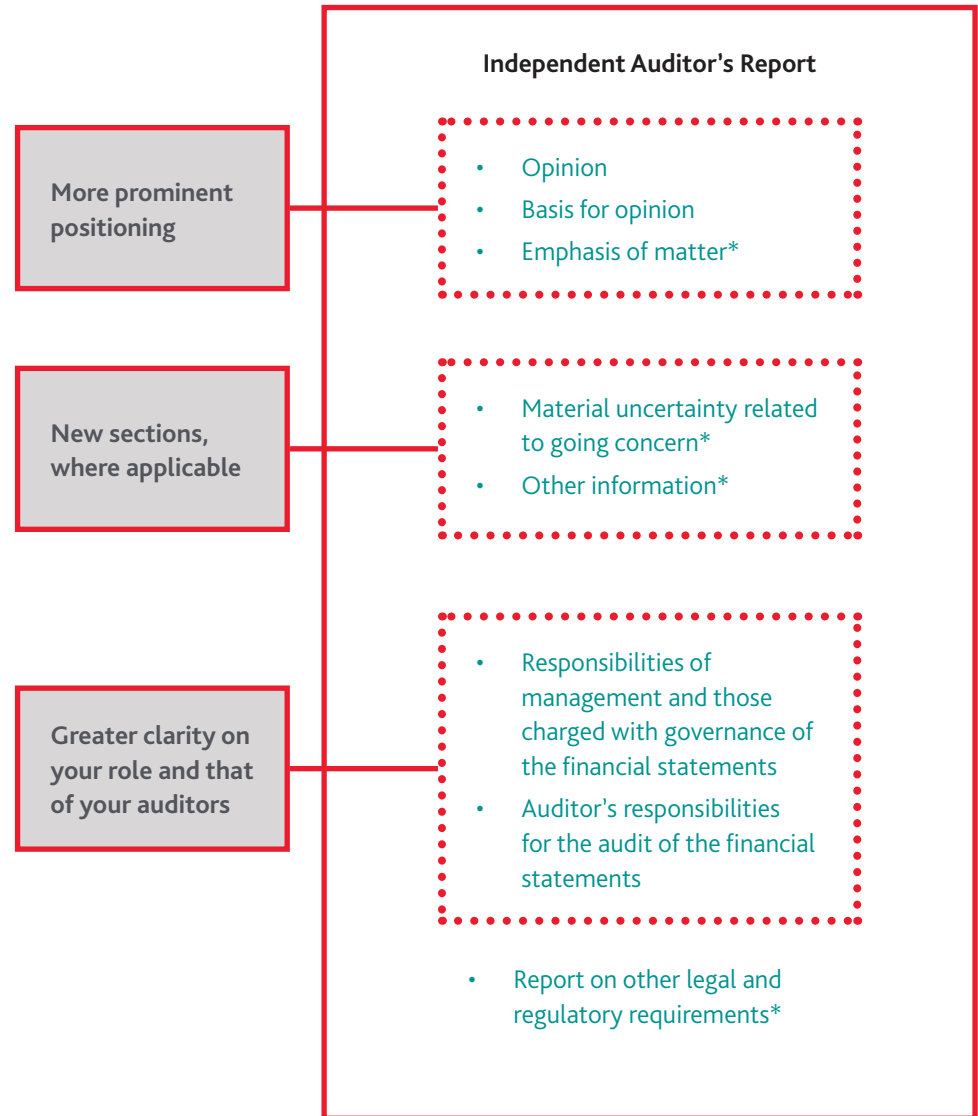
Auditor's Report Structure

One of the key changes in the new auditor reporting approach is the layout of the auditor's report, and more prominent positioning of the opinion and basis of opinion sections.

To help support consistency, yet allow for specificity, auditor's reports will generally have the layout shown here. Items marked with * are only included where applicable.

The revised CASs have a direct impact on how the auditor's report will be presented, but were also designed to enable greater innovation (for example, allowing some of the content to be displayed online).

The [Appendix](#) at the end of this publication provides an illustrative example of the new auditor's report.



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A Few Words About Key Audit Matters

An overview of the optional reporting of Key Audit Matters in the auditor's report.

The definition of a Key Audit Matter is:

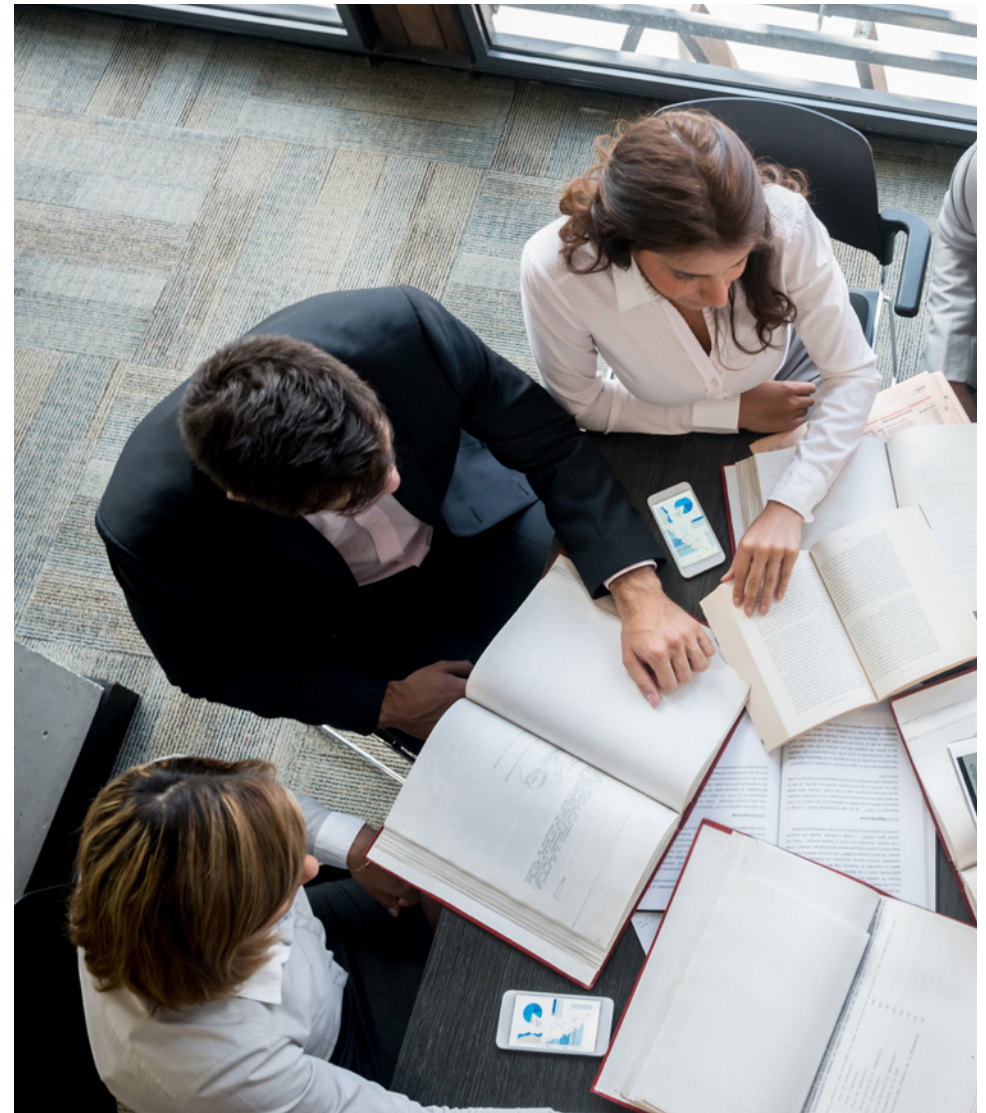
Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. KAMs are selected from matters communicated with those charged with governance.

What is required?

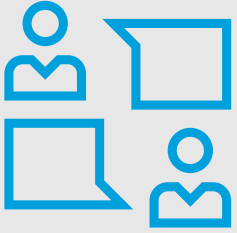
The requirements relating to KAMs are set out under CAS 701, Communicating Key Audit Matters in the Independent Auditor's Report, which is also effective for audits of financial statements for periods ending on or after December 15, 2018. Essentially, unless specifically required by law or regulation, the reporting of KAM is optional. This differs from the international standard whereby KAM are required to be disclosed for all listed entities. Currently, Canadian standards do not contain a KAM reporting requirement, but allow for the KAM reporting when:

- The auditor decides to communicate KAM in the auditor's report, or
- The auditor is required by law or regulation to communicate KAM in the auditor's report.

Your BDO Advisor will keep you apprised of ongoing developments in this area of reporting.



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Keep The Dialogue Going

Emphasizing the importance of early and ongoing communication.

The new auditor's report represents one of the biggest changes in reporting and communication in many years. There will be an increase in work effort, especially in the first year of implementation. New requirements, such as

those pertaining to going concern and other information will necessitate additional time and involvement by experienced engagement team members.

As with most changes, you don't want to be surprised. With the new auditor reporting changes becoming effective for financial statement periods ending on or after December 15, 2018, it is important to plan ahead. Our approach is to provide transparency, clarity and confidence during this period of change. Early engagement will lead to successful implementation of these new auditor reporting requirements.

Please contact your BDO Advisor should you have questions or require further information.



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Appendix

The example below assumes the case of a listed entity for which consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs), and for which a comparative financial statement reporting approach is being used (that is, a two-year opinion). Depending on the nature of your entity, the report will be adapted as required, however the changes reflected apply equally in most circumstances unless otherwise noted.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Consolidated Financial Statements

Opinion

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

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

Basis for Opinion

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

Material Uncertainty Related to Going Concern [When applicable]

We draw attention to Note X in the consolidated financial statements, which indicates that the Company incurred a net loss of \$X during the year ended December 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by \$X. As stated in Note X, these events or conditions, along with other matters as set forth in Note X, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information [When applicable]

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

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities with the Group to express an opinion on the consolidated financial statements. We are responsible for the direction supervision and performance of the group audit. We remain solely responsible for our audit opinion. *[Applicable in the case of a group audit]*

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

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

Report on Other Legal and Regulatory Requirements

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

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

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

[Auditor Address]

[Date]