

BASIS FOR CONCLUSIONS CANADIAN AUDITING STANDARD (CAS) 700, Reporting on Audited Financial Statements

April 2019

This Basis for Conclusions has been prepared by staff of the Auditing and Assurance Standards Board (AASB). It relates to, but does not form part of, Canadian Auditing Standard [700](#), *Forming an Opinion and Reporting on Financial Statements*.

Purpose of this Basis for Conclusions

This Basis for Conclusions has been prepared to make Canadian stakeholders aware of the AASB's revisions to [CAS 700](#), how the AASB obtained input from stakeholders, and how it dealt with significant matters arising from comments received. This information is set out below.

Background

Reporting requirements for Canadian reporting issuers that are Multijurisdictional Disclosure System filers

In Canada, the general requirement for reporting issuers is that financial statements be audited in accordance with Canadian generally accepted auditing standards (GAAS). Certain reporting issuers qualify to report to the U.S. Securities and Exchange Commission (SEC) in accordance with the Multijurisdictional Disclosure System (MJDS), which permits Canadian MJDS filers to comply with SEC reporting requirements by filing documents prepared largely in accordance with Canadian laws, including having audits conducted in accordance with Canadian GAAS.

Some MJDS filers are also SEC issuers as defined under Canadian securities regulations (SEC Issuers) and are permitted to have their financial statements audited in accordance with U.S. Public Company Accounting Oversight Board (PCAOB) auditing standards rather than Canadian GAAS. However, other MJDS filers are not SEC Issuers or are subject to additional requirements, for example:

1. A small number of banks and insurance companies have requirements specific to governing legislation that requires the audit of their financial statements to be conducted in accordance with Canadian GAAS as part of annual shareholder reporting.
2. Certain Canadian entities file reports on a voluntary basis with the SEC. Such entities are required to be audited in accordance with Canadian GAAS under Canadian securities regulations since they do not qualify as SEC Issuers.
3. Certain other MJDS filers are permitted to have their audits conducted in accordance with Canadian GAAS only for filings made using MJDS forms and do not need to have their audits conducted in accordance with PCAOB auditing standards.

Therefore, certain MJDS filers have audits conducted and reported upon in accordance with both Canadian GAAS and PCAOB auditing standards, or Canadian GAAS only.

Disclosure of the engagement partner name

Paragraph [46](#) of CAS 700 requires that the name of the engagement partner be included in the auditor's report on financial statements of listed entities with only very limited exceptions. This requirement does not exist under PCAOB auditing standards.

When the PCAOB proposed inclusion of the name of the engagement partner within the auditor's report, respondents to the PCAOB exposure draft expressed concern about such a requirement in the context of the consent requirements under U.S. securities regulations. As a result of the PCAOB's consideration of comments received on their proposal, the PCAOB introduced the Form AP filing system. This system requires the auditor to submit information, including the name of the engagement partner, on a form that is available to the public. The PCAOB indicated that the Form AP filing system was viewed as appropriately addressing the consent and liability concerns among others raised in the standard setting process.

Significant Matters

Implications for Canadian GAAS auditor's reports filed with the SEC

If a Canadian GAAS auditor's report includes the name of the engagement partner, concerns have been raised about such report being filed with the SEC. Specifically, the potential consent and liability issues originally contemplated in exposure of the PCAOB auditor reporting standard might apply for Canadian auditors of MJDS filers.

1. The AASB became aware of these concerns in November 2018 when it was noted that some affected Canadian MJDS filers with December year ends would need to file the Canadian GAAS auditor's report with the SEC in early 2019. The Board was asked to consider whether an amendment to paragraph [46](#) of CAS 700 could be made to alleviate the potential consent and personal liability concerns and related impact on these entities.
2. In debating this issue, the AASB considered the public interest issues of making a change to [CAS 700](#) to address concerns raised, including:

- (a) the AASB's commitment to adopt International Standards on Auditing with minimal amendment;
- (b) the potential consequences for the marketplace if the AASB does not make a change;
- (c) whether the AASB can complete its due process on the issue in time to appropriately address the issue; and
- (d) whether there might be unintended consequences of different options to address the issue.

Conclusion

- 3. The AASB concluded that stakeholders need more time to obtain the appropriate information about the issue and consider different options. The Board concluded that it should defer application of paragraph 46 for one year for audits of financial statements conducted in accordance with Canadian GAAS when the name of the engagement partner is submitted on Form AP for filing with the PCAOB. As a result, paragraph 46 does not apply to audits of financial statements of affected filers for periods ending before December 15, 2019.
- 4. The AASB also concluded that this amendment does not require exposure for comment because of the limited number of affected entities. It also notes that readers of the auditor's report of an entity affected by the deferral of application of paragraph 46 who wish to determine the name of the engagement partner for the engagement can do so by accessing Form AP at the PCAOB's website. The Auditing and Assurance Standards Oversight Council confirmed that the Board followed due process in deferring the application of paragraph 46 of CAS 700 prior to its issuance in the CPA Canada Handbook – Assurance.

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