

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

December 2018

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.

This Basis for Conclusions supplements, but does not replace, the Basis for Conclusions entitled "Reporting on Audited Financial Statements" (the 2017 Basis for Conclusions) issued in June 2017.

Background

The AASB approved the Auditor Reporting standards at its meeting in April 2017. The Auditing and Assurance Standards Oversight Council confirmed that the Board followed due process in developing the Auditor Reporting standards prior to their issuance in the CPA Canada Handbook – Assurance. These auditor reporting standards included limited Canadian amendments, including that communication of key audit matters is not required for any specific entities other than when required by law or regulation or the auditor decides to do so.

Paragraph 23 of the 2017 Basis for Conclusions stated that the AASB was leaving open the possibility that it may propose to change the scope and timing of [CAS 701, Communicating Key Audit Matters in the Independent Auditor's Report](#), at a future date in light of various matters, including the issuance by the U.S. Public Company Accounting Oversight Board (PCAOB) of its auditor reporting standard.

In October 2017, the U.S. Securities Exchange Commission approved the PCAOB's new auditor reporting standard. Based on this development, the AASB considered the scope and timing of the requirements for communication of key audit matters in Canada.

Significant Matters

The Scope and Timing of the Requirements for Communication of Key Audit Matters

1. As discussed in paragraphs 17-20 of the 2017 Basis for Conclusions, the AASB received support from stakeholders for a staged implementation that would require communication of key audit matters for audits of financial statements of entities listed on the Toronto Stock Exchange (TSX), and key audit matter reporting would apply to the audits of financial statements of other listed entities a year later. In reviewing this conclusion in light of the PCAOB's new auditor reporting standard, the AASB initially concluded that a staged approach remained appropriate and that [CAS 701](#) should apply for audits of TSX-listed entities before audits of other listed entities.
2. In discussing this conclusion with various stakeholders in the first half of 2018, the AASB became aware of concerns of certain stakeholders in the investment funds industry. They noted that the PCAOB granted a specific exemption with respect to communication of critical audit matters for audits of investment companies and believed the reasons the PCAOB gave for this exemption should be considered in a Canadian context. These stakeholders believed that requiring communication of key audit matters for investment funds that are TSX-listed entities, while not requiring such communication for other listed and unlisted investment funds, will lead to inconsistent auditor reporting that is confusing for users. They also noted that both listed and unlisted investment funds are required to comply with National Instrument (NI) 81-106, *Investment Fund Continuous Disclosure*.
3. The AASB believes that obtaining input from stakeholders on the communication of key audit matters for audits of the financial statements of investment funds is appropriate. Accordingly, the communication of key audit matters will initially apply to audits of entities listed on the TSX, other than those required to comply with NI 81-106.
4. The requirement to communicate critical audit matters in the PCAOB standard is effective for certain U.S. issuers for audits of financial statement periods ending on or after June 15, 2019, and all other U.S. issuers to which the requirements apply for periods ending on or after December 15, 2020.
5. To reduce potential confusion that could be caused if communication of key audit matters was required in Canada at a different date than the similar concept is effective for all issuers in the U.S., and to allow adequate time for implementation, the AASB decided that the initial application of requirements to communicate key audit matters in Canada will have the same effective date – December 15, 2020.

Conclusion

6. In light of the matters discussed above, the AASB concluded that amendments need to be made to require communication of key audit matters for audits of financial statements of entities listed on the TSX, other than those entities required to comply with NI 81-106, for audits of financial statements for periods ending on or after December 15, 2020. The AASB also concluded that these amendments, while significant in relation to the existing key audit matter reporting requirements, do not require exposure for comment because they are responsive to comments raised by stakeholders, in part as discussed in the 2017 Basis for Conclusions. The Auditing and Assurance Standards Oversight Council confirmed that the Board followed due process in developing the amendments to [CAS 700](#) prior to their issuance in the CPA Canada Handbook – Assurance.
-

[Terms and Conditions](#) and [Privacy Policy](#)

Help desk: Mon-Fri, 9am-5pm ET 1-866-256-6842 [Contact Us](#) [Quick Reference Guide](#)

© 2001-2025, Knotia Canada Limited Partnership All rights reserved.