

BASIS FOR CONCLUSIONS CAS 260, 570, 700, 701, 705, 706, 800, 805 and 810 Reporting on Audited Financial Statements

June 2017

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 the new and revised auditor reporting standards and related conforming amendments (Auditor Reporting standards). These standards comprise:

- [CAS 260](#), *Communication with Those Charged with Governance*;
- [CAS 570](#), *Going Concern*;
- [CAS 700](#), *Forming an Opinion and Reporting on Financial Statements*;
- [CAS 701](#), *Communicating Key Audit Matters in the Independent Auditor's Report*;
- [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 800](#), *Special Considerations — Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*;
- [CAS 805](#), *Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*; and
- [CAS 810](#), *Engagements to Report on Summary Financial Statements*.

Purpose of this Basis for Conclusions

This Basis for Conclusions has been prepared to make Canadian stakeholders aware of the following:

- (a) The following Bases for Conclusions prepared by International Auditing and Assurance Standards Board (IAASB) staff, which are available on the IAASB website:
 - (i) "Reporting on Audited Financial Statements – New and Revised Auditor Reporting Standards and Related Conforming Amendments" provides information on how the IAASB dealt with comments received in response to its Exposure Draft of "Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing" (ED-IAASB);
 - (ii) ISA 800 (Revised), *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, and ISA 805 (Revised), *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement* provides information on how the IAASB dealt with comments received in response to its Exposure Drafts of ISA 800 (Revised) and ISA 805 (Revised); and
 - (iii) ISA 810 (Revised), *Engagements to Report on Summary Financial Statements* provides information on how the IAASB dealt with comments received in response to its Exposure Draft of ISA 810 (Revised).
- (b) Information on how the AASB dealt with significant matters arising from comments received in response to its Exposure Draft of "Reporting on Audited Financial Statements," Invitation to Comment on "Implementation Considerations for New Auditor Reporting Standards," Exposure Draft of "Reporting on Audited Financial Statements – Special Considerations" (ED-CAS 800 and CAS 805), and Exposure Draft of "Engagements to Report on Summary Financial Statements" (ED-CAS 810). This information is set out below.

Background

In July 2013, the IAASB issued its ED-IAASB of proposed auditor reporting ISAs (auditor reporting ISAs). The IAASB approved final auditor reporting ISAs in September 2014 subject to confirmation by the Public Interest Oversight Board that due process was followed. This confirmation was received in December 2014. The IAASB issued its final standards in January 2015.

In September 2013, the AASB issued its Exposure Draft to adopt the Auditor Reporting standards. There were 15 respondents to the Exposure Draft (identified below). In addition to seeking written comment on the Exposure Draft, the Board also conducted roundtable discussions in various provinces throughout Canada with different stakeholder groups including auditors, audit committee members, preparers and regulators.

The AASB carefully reviewed the changes made by the IAASB in finalizing the auditor reporting ISAs and believed the AASB's concerns had been substantively addressed. Accordingly, and respecting the strong support from Canadian stakeholders for the continued adoption of ISAs as CASs, the AASB concluded that it should adopt the auditor reporting ISAs as Auditor Reporting standards with limited Canadian amendments.

However, while supporting the adoption of the full suite of auditor reporting ISAs, the AASB identified challenges that affect the implementation of the Auditor Reporting standards. In June 2015, the AASB issued an Invitation to Comment on how best to address the implementation considerations. There were 31 responses to the Invitation to Comment (identified below). The Board also conducted further roundtable discussions throughout Canada with different stakeholder groups.

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.

Significant Matters

AASB's Consideration of Amendments to ISA Wording

The Scope of the Requirements for Reporting on Key Audit Matters

1. The auditor reporting ISAs require auditors of listed entities to communicate key audit matters in their auditor's reports.
2. Of concern to many Canadian stakeholders responding to the Exposure Draft was the proposal that reporting of key audit matters be required for all listed entities. The Canadian market can be segmented into the Toronto Stock Exchange (TSX) (approximately 1,500 issuers of which nearly 10 per cent have a market capitalization of less than \$10 million), and other exchanges (of which many have a market capitalization of less than \$10 million) are in the resource sector and in start-up mode.
3. The needs of financial statements users in the different market segments in Canada vary. Participants in exchanges outside the TSX market indicated that requiring entities with limited financial resources to report key audit matters may add cost, with limited benefits for investors. Stakeholders of entities listed on the smaller exchanges, such as early stage resource companies, may place greater emphasis on experts' reserve reports and other reporting on future prospects in making investment decisions. Accordingly, some stakeholders questioned whether such a requirement would be in the public interest. They see it as having potential adverse consequences for economic development by imposing an additional burden on the auditors, preparers and audit committees of such entities.
4. The AASB considered whether, based on the views of Canadian stakeholders, certain listed entities should be exempted from key audit matter reporting. The Board noted that:
 - The type of entities in the Canadian marketplace also exist in other jurisdictions, such as Australia and the UK. Further, while there are many smaller resource companies not listed on the TSX, the other exchanges also include companies in other industries that are not resource based.
 - Whether there are significant matters requiring auditor attention that should be reported as key audit matters depends on the company's individual circumstances. In some cases, the audit of a small resource company may not give rise to any matters requiring significant auditor attention, for example when it has very limited operations. The Auditor Reporting standards identify that there are certain limited circumstances where this may be the case. On the other hand, there may be matters requiring significant auditor attention even in smaller companies where key audit matter reporting would benefit investors. For example, many companies operate in emerging markets where there are matters that should be reported.
 - Key audit matter reporting will likely impact costs because of the time required of auditors, management and audit committees to discuss and agree on key audit matters.
5. In the Invitation to Comment, the AASB stated that no listed entities should be exempted from key audit matter reporting. The Board also identified that there are a limited number of recognized stock exchanges under securities legislation. There are currently four such exchanges in Canada:
 - Toronto Stock Exchange;
 - TSX Venture Exchange;
 - Canadian Securities Exchange; and
 - Aequitas NEO Exchange.

A number of other marketplaces operate in Canada that are not recognized stock exchanges. However, they do not share the same characteristics as stock exchanges, particularly related to price setting and the public's ability to trade in an open market. The AASB initially concluded that auditors of entities listed on the four recognized stock exchanges should apply the requirements of the new auditor reporting standards for listed entities. However, the Board prescribed a staged implementation of key audit matter reporting.

6. Respondents to the Invitation to Comment expressed diverse views about which entities key audit matter reporting requirements should apply to. A few respondents supported expanding key audit matter reporting to public sector entities or publicly accountable enterprises, while others were opposed to voluntary key audit matter reporting for non-listed entities. While the majority of respondents did not object to key audit matter reporting applying to TSX-listed entities, there were concerns about the applicability of key audit matter reporting requirements to other listed entities. Suggestions included:

- replacing all references to "listed entities" in the auditor reporting standards with "reporting issuers", which is defined in securities legislation. Using "reporting issuers" promotes greater consistency in auditor reporting for entities subject to the same securities regulatory filing and disclosure requirements;
 - having a market capitalization threshold below which auditors of listed entities would not be required to apply key audit matter reporting;
 - applying key audit matter reporting to investment-fund audits because such funds are reporting issuers and are subject to continuous disclosure requirements that also apply to listed entities;
 - the AASB working with securities regulators to develop clearly defined categories of listed issuers for application of key audit matter reporting;
 - harmonizing key audit matter reporting with the definition of reporting issuer in rules of professional conduct;
 - not applying key audit matter reporting requirements to audits of venture issuers, or the AASB should delay a decision on whether auditors of venture issuers should be required to apply key audit matter reporting until the Board can further examine the respective costs and benefits.
7. The AASB carefully considered the comments it received, particularly in light of Canadian stakeholders' strong support for the continued adoption of ISAs as CASs with limited Canadian amendments. The Board also considered the IAASB's intent when issuing the auditor reporting ISAs, which requires key audit matter reporting for listed entities. This requirement was an initial step toward potential broader application, recognizing that for a period of time auditor reporting will be inconsistent across different entities. Further, the AASB noted that the IAASB committed to conduct a post-implementation review of the auditor reporting ISAs. A key consideration of the review would be whether to extend key audit matter reporting beyond listed entities.
 8. The CASs contain requirements and application material specific to audits of listed entities (for example, paragraph 17 of CAS 260). The AASB also notes that the type of entities that may be considered reporting issuers is evolving as securities regulators contemplate new means for entities to raise capital and the related regulatory environment. As the scope of the term "reporting issuer" in securities regulation expands, it is unclear whether using this term for reporting and other audit standards will have unintended consequences in the broader context of the CASs as a whole without further study. Further, the Board notes that there are many Canadian entities that do not meet the definition of listed entities where key audit matter reporting could be considered useful, even though they are not reporting issuers (for example, government organizations).
 9. The AASB has not identified clear criteria that could be used for deciding what entities beyond listed entities should be considered for key audit matter reporting. The Board concluded that broadening the scope of key audit matter reporting beyond listed entities would require deeper analysis and public exposure. Further, given that the IAASB may extend the scope of key audit matter reporting in the future, the AASB prefers to stay in step with the global direction for applying key audit matter reporting in this respect.
 10. With respect to smaller listed entities, such as venture issuers, the AASB believes that the Auditor Reporting standards provide auditors sufficient flexibility to use professional judgment in applying the key audit matter reporting requirements in a balanced manner. This scalability of effort is expected to benefit auditors of smaller listed entities. Some have observed that within some industry groups of venture issuers, investors place greater reliance on sources of information outside of the audited financial statements, such as mineral-reserve reporting. The Board notes that other industries comprising the venture-issuer population would be expected to place much greater emphasis on the audited financial statements and auditors' communication on the audited financial statements.
 11. At the same time, the AASB acknowledges that venture issuers are granted certain regulatory relief by securities regulators and that, until auditor reporting evolves, it is difficult to conclude on costs and benefits for this element of the listed-entity marketplace. The Board is still considering whether key audit matter reporting should be required for audits of other listed entities. It intends to conduct research on this topic. This research includes examining the experience of jurisdictions that will be implementing the new auditor reporting standards before Canada, particularly with key audit matter reporting for smaller listed entities.
The Need for Consistency of Reporting Requirements of the AASB and the PCAOB, Including Key Audit Matter Reporting
 12. Several Canadian respondents to the Exposure Draft noted that a significant number of Canadian companies are listed in both Canada and the United States. There was concern that should the IAASB (and ultimately the CASs) and the PCAOB auditor reporting standards be significantly different, it could result in auditors of two similar companies that operate in similar markets having significantly different auditor's reports. In particular, if the PCAOB does not implement proposals for reporting similar to key audit matter reporting, there is the potential that auditor's reports on Canadian dual-listed companies will be required to include key audit matter reporting whereas those of U.S. companies would not.
 13. The AASB submitted a response to the PCAOB in December 2013 with respect to the PCAOB's "Rulemaking Docket No. 034: The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion"; "The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements" and the "Related Auditor's Report." The AASB stated that significant differences in the form and content

of reports resulting from the two sets of standards would confuse some readers of auditor's reports on financial statements of Canadian SEC registrants, which comprise many of Canada's largest companies. The AASB also stated that significantly different auditor reporting models are not in the public interest.

14. For this reason, the AASB urged the PCAOB to work with the IAASB and other bodies, such as the European Commission, not only with respect to the auditor's report on financial statements but also in relation to the auditor's responsibilities relating to other information in certain documents containing audited financial statements.
15. In the Invitation to Comment, the AASB indicated that it was important for it to understand the implications for Canadian auditors of any significant differences between the Auditor Reporting standards and PCAOB reporting standards.
16. Nearly half the respondents to the Invitation to Comment recommended that the effective date of the Auditor Reporting standards should not be before the effective date of the PCAOB standards. The AASB has been monitoring the U.S. standard-setting process. However, the process was not completed before finalizing the Auditor Reporting standards.

Effective Implementation of Key Audit Matter Reporting

17. The Invitation to Comment noted that the auditor reporting ISAs are effective for audits of financial statements for periods ending on or after December 15, 2016. The AASB indicated that the preparation of auditor's reports containing key audit matters that are meaningful for readers will require additional time for auditors, audit committees and management, particularly in the first year. Because of the large number of listed entities in Canada, and the challenges of key audit matter reporting, the Board believed that significant efforts will need to be made to engage stakeholders so that they understand the benefits and challenges of the reporting standards, and will collaborate to implement the standards for the benefit of users of the financial statements and the auditor's report. The AASB recognized that this may take time because many stakeholders may not have been following the auditor reporting project closely. Some respondents also stated that key audit matter reporting needs to be accompanied by a requirement to have the annual report contain financial reporting and internal control risks by the audit committee, such as exists in the United Kingdom. They consider that such reporting is one of the key reasons that implementation of enhanced auditor reporting was successful in the United Kingdom.
18. The AASB tentatively concluded, after discussion with securities regulators, audit firms, audit inspectors and others, that it was necessary to develop an effective date for the Auditor Reporting standards that takes into account these implementation considerations. In this respect, the Board considered whether there is a need for a deferral of the effective date for all entities and, further, with respect to key audit matter reporting, whether there should be a staged implementation of [CAS 701](#). The Board believed that a staged implementation of CAS 701 addressed Canadian stakeholders' concern while maintaining Canada's commitment to adopt the auditor reporting ISAs as Auditor Reporting standards.
19. The Invitation to Comment indicated that the AASB expected to set effective dates different from those of the auditor reporting ISAs as follows:
 - CASs other than [CAS 701](#) would be effective for audits of financial statements for periods ending on or after December 15, 2017;
 - [CAS 701](#) would be effective for audits of financial statements of TSX-listed entities for periods ending on or after December 15, 2017, and for audits of financial statements of other entities for periods ending on or after December 15, 2018.
20. Respondents to the Invitation to Comment generally supported the staged implementation approach for the reasons included in the Invitation to Comment, although a few respondents cited concerns that the timing coincides with the implementation of new accounting standards.

Conclusion on Amendments to ISA Wording

21. In light of the matters raised by respondents to the Invitation to Comment, subsequent consultations with various stakeholders, and monitoring of developments in the United States and elsewhere, the AASB concluded that amendments need to be made to the scope and timing of the Auditor Reporting standards. The amendments are as follows:
 - The effective date is for audits of financial statements for periods ending on or after December 15, 2018.
 - The scope of key audit matter reporting is amended such that it is not required for any specific entities. However, when the auditor is required by law or regulation or decides to communicate key audit matters in the auditor's report, the auditor is required to do so in accordance with [CAS 701](#).
22. The following explains the basis for this conclusion:
 - In response to the strong support from Canadian stakeholders for the continued adoption of ISAs as CASs, the AASB believes it is important to adopt the Auditor Reporting standards now. There are aspects of the Auditor Reporting standards that enhance audit quality and are in the public interest. Integration of the broad range of changes arising from the Auditor Reporting standards makes further deferral increasingly problematic for auditors. Further delays in adopting these ISAs could also have adverse consequences to adopting ISAs as the IAASB develops.

- There may be circumstances when an auditor is engaged to conduct an audit in accordance with both the CASs and the ISAs and wishes to issue one report.
 - Stakeholders made it clear that changes to auditor reporting standards need to recognize that the Canadian and U.S. capital markets are closely integrated. Given that the PCAOB has not finalized its auditor reporting standards with respect to its key audit matter reporting concept, the AASB believes that it is not appropriate at this time to mandate key audit matter reporting for listed entities in Canada. While there are other differences between the Auditor Reporting standards and U.S. reporting standards, the AASB believes, and has validated with other stakeholders, such differences do not create the same sensitivities as key audit matter reporting.
 - Reflecting the stakeholders' views, the AASB intends to provide sufficient time to promote an effective implementation of the Auditor Reporting standards.
23. The AASB leaves open the possibility that it may propose to change the scope and timing of [CAS 701](#) at a future date in light of matters such as:
- the IAASB's post-implementation review (see paragraph [7](#));
 - the AASB's research on whether key audit matter reporting may be appropriate for smaller listed entities (see paragraph [11](#)); and
 - the PCAOB's issuance of its auditor reporting standards (see paragraph [16](#)).
24. Because the auditor reporting ISAs are effective for financial statement periods ending on or after December 15, 2016, auditors performing audits of financial statements in accordance with the CASs for periods ending on or after this date should not represent compliance with the ISAs unless they have also complied with the auditor reporting ISAs.
- Other Matter**
25. A respondent to ED-CAS 800 and [CAS 805](#) was concerned with the proposed requirement for the auditor conducting an engagement in accordance with CAS 805 to include a material uncertainty related to going concern section in the auditor's report when such a section is included in the auditor's report on the complete set of financial statements.
26. The respondent noted that because [CAS 805](#) engagements can vary significantly, [CAS 570](#) may not be relevant, in which case, it would not be appropriate to include a material uncertainty related to the going-concern section in the auditor's report simply because such matter has been disclosed in the auditor's report on the complete set of financial statements.
27. The AASB noted that the IAASB considered respondent comments on this issue and made revisions in the final standard. ISA 805 requires the auditor to consider the implications of certain matters that are included in the auditor's report on the complete set of financial statements for both the conduct of the ISA 805 engagement and the auditor's report thereon. However, the IAASB agreed with respondents that it would not be appropriate to mandate a reference to communications about a material uncertainty related to going concern in the auditor's report on the complete set of financial statements in all circumstances.
28. The AASB is satisfied that no amendment is necessary in adopting ISA 805 as [CAS 805](#) on this matter.

List of Respondents to the Exposure Draft and the Invitation to Comment

Respondents	Exposure Draft	Invitation to Comment
Ackerman		v
Banque Laurentienne	v	
BDO		v
Canadian Bankers Association		v
Canadian Natural Resources		v
Canadian Performance Reporting Board of CPA Canada	v	
Chartered Professional Accountants of British Columbia	v	v (2)
Chief Accountants Committee of the Canadian Securities Administrators	v	v
Chartered Professional Accountants of Québec	v	v
Crete		v

Deloitte LLP	v	v
DeVisser Gray		v
Ernst & Young LLP	v	v
Financial Executives Institute		v
Fortis		v
Gibsons		v
Group of BC firms		v
Institute of Corporate Directors		v
KN&V Chartered Accountants LLP	v	v
Kopas		v
KPMG LLP		v
MacKay LLP	v	v
Methanex		v
Minister of Finance Quebec		v
Office of the Auditor General Canada	v	v
Office of the Auditor General of Manitoba	v	
Office of the Auditor General Quebec		v
Office of the Superintendent of Financial Institutions Canada	v	v
Peressini		v
Pinsky		v
PricewaterhouseCoopers LLP	v	v
Provincial Auditor Saskatchewan	v	
Raymond Chabot Grant Thornton LLP	v	v
TransCanada		v
	15	31

List of Respondents to Exposure Draft CAS 800 and CAS 805

Deloitte LLP

MNP LLP

List of Respondents to Exposure Draft CAS 810

Deloitte LLP

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