

assurance and related services guideline

AuG-6

examination of a financial forecast or projection included in a prospectus or other public offering document

Basis for Conclusions

[CSQM 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements \(May 2022\)](#)

[AuG-6, Examination of a Financial Forecast or Projection Included in a Prospectus or Other Public Offering Document, AuG-16, Compilation of a Financial Forecast or Projection \(June 2020\)](#)

This Guideline is to be read in conjunction with the [Preface to the CPA Canada Handbook – Assurance](#).

This Guideline refers to FUTURE-ORIENTED FINANCIAL INFORMATION, Section 4250.

On March 1, 2020, the Accounting Standards Board (AcSB) removed Part V from the CPA Handbook – Accounting, which included Section 4250. The AcSB has retained the content from Section 4250 as non-authoritative guidance for future-oriented financial information in the CPA Canada Standards and Guidance Collection.

No change has been made to this Guideline as a result of the AcSB's change. Therefore, this assurance and related services guideline is to be adapted as necessary in the circumstances.

May 2022

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SCOPE AND DEFINITIONS

1. This Guideline provides guidance for the public accountant who is asked to undertake an examination of a financial forecast or projection included in a prospectus or other public offering document filed with securities regulatory authorities.
2. This Guideline replaces the previous Auditing Guideline, "Auditor Review of Financial Forecasts" (June 1983), which provided guidance for auditors engaged to review and comment on financial forecasts included in documents filed with securities regulatory authorities. Such forecasts were to be prepared in accordance with an Accounting Guideline, "Presentation and Disclosure of Financial Forecasts" (June 1983). Since then, there has been extensive discussion of future-oriented financial information by Canadian and other standard-setting bodies. Accounting standards for Canada

are set out in FUTURE-ORIENTED FINANCIAL INFORMATION, Section 4250 in Part V of the CPA Canada Handbook – Accounting and the Accounting Guideline has been withdrawn.

3. Canadian securities regulatory authorities may require that a financial forecast or projection included in a prospectus or other public offering document be examined by a public accountant in accordance with guidance set out in the CPA Canada Handbook – Assurance.
 4. This Guideline is directed solely to circumstances where a public accountant is requested to undertake such an engagement. It does not deal with matters not relevant to these engagements, for example, special purpose future-oriented financial information. Also, this Guideline does not deal with the detailed requirements of securities regulatory authorities.
 5. FUTURE-ORIENTED FINANCIAL INFORMATION, Section 4250, includes the following definitions:
 - (a) **Future-oriented financial information** is information about prospective results of operations, financial position and/or cash flows, based on assumptions about future economic conditions and courses of action. Future-oriented financial information is presented as either a forecast or a projection.
 - (b) A **forecast** is future-oriented financial information prepared using assumptions all of which reflect the entity's planned courses of action for the period covered given management's judgment as to the most probable set of economic conditions.
 - (c) A **projection** is future-oriented financial information prepared using assumptions that reflect the entity's planned courses of action for the period covered given management's judgment as to the most probable set of economic conditions, together with one or more hypotheses that are assumptions that are consistent with the purpose of the information but are not necessarily the most probable in management's judgment.
 - (d) **General purpose future-oriented financial information** is future-oriented financial information prepared for external users with whom the entity is not negotiating or dealing directly.
 - (e) **Special purpose future-oriented financial information** is future-oriented financial information prepared for external users with whom the entity is negotiating or dealing directly.
 6. For purposes of this Guideline, the following additional terms have the meanings attributed below:
 - (a) The **engagement partner** is the partner or other individual, appointed by the firm, who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
 - (b) The **engagement team** includes all partners and staff performing the engagement, and any other individuals who perform procedures on the engagement excluding a public accountant's external expert.
 - (c) The **firm** is a sole practitioner, partnership or corporation or other entity of professional accountants, or public sector equivalent.
 7. Although this Guideline refers mainly to an examination of a financial forecast, it is equally applicable when a public accountant is asked to examine a financial projection. Consequently, the Guideline also includes specific guidance concerning matters relevant only to an examination of a financial projection; for example, the additional considerations and procedures necessary:
 - (a) in deciding whether to accept such an engagement; and
 - (b) in establishing that the criteria specific to a projection as set out in FUTURE-ORIENTED FINANCIAL INFORMATION, Section 4250, are met.
- ## OBJECTIVES AND STANDARDS
8. The public accountant's objective in an examination of a financial forecast is to form an opinion in relation to the criteria set out in FUTURE-ORIENTED FINANCIAL INFORMATION, Section 4250. The opinion would state specifically whether:
 - (a) the assumptions developed by management are suitably supported and consistent with the plans of the entity, and provide a reasonable basis for the forecast;
 - (b) the forecast reflects such assumptions; and
 - (c) the financial forecast complies with the presentation and disclosure standards set out in the CPA Canada Handbook – Accounting.
 9. The public accountant's opinion as to whether the assumptions developed by management provide a reasonable basis for the forecast is formed in the context of management's compliance with the criteria relating to assumptions set out in FUTURE-ORIENTED FINANCIAL INFORMATION, paragraphs 4250.08-14.
 10. A financial forecast is based on assumptions regarding future events. Actual results for the forecast period will vary from those forecast. Accordingly, the public accountant's examination cannot be directed to providing assurance about the achievability of the financial forecast.
 11. The public accountant should:
 - (a) have adequate technical training and proficiency in auditing;
 - (b) adequately plan the engagement and supervise the work of assistants, if any;

- (c) obtain sufficient appropriate evidence to provide a reasonable basis for his or her examination report;
 - (d) document matters that in his or her professional judgment are important in indicating that sufficient appropriate evidence has been obtained to afford a reasonable basis to support the content of the report; and
 - (e) perform the examination and prepare the report with due care and an objective state of mind.
12. The public accountant may be asked by management to become involved in the preparation of the financial forecast, for example, in the development of assumptions or the development and gathering of information to support the assumptions. Before agreeing to provide such assistance, the public accountant should consider whether the nature and extent of the assistance to be provided would impair his or her objectivity and thus preclude reporting on the financial forecast.
13. Evidence would be considered sufficient when, in the public accountant's professional judgment, the risk of not detecting that the assertions being reported on are materially at variance with reasonably available information is reduced to an acceptably low level. The assertions being reported on are:
- (a) the assumptions developed by management are suitably supported and consistent with the plans of the entity, and provide a reasonable basis for the forecast;
 - (b) the forecast reflects such assumptions; and
 - (c) the financial forecast complies with the presentation and disclosure standards set out in the CPA Canada Handbook – Accounting.

QUALITY MANAGEMENT

14. This Guideline is premised on the basis that:
- (a) the members of the engagement team and the engagement quality reviewer (for those engagements where one has been appointed) are subject to relevant rules of professional conduct / code of ethics applicable to the practice of public accounting and related to assurance engagements, issued by various professional accounting bodies, or other professional requirements, or requirements in law or regulation, that are at least as demanding; and
 - (b) the public accountant who is performing the engagement is a member of a firm that is subject to [CSQM 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements](#), or other professional requirements, or requirements in law or regulation, regarding the firm's responsibility for its system of quality management, that are at least as demanding as CSQM 1.
15. [CSQM 1](#) deals with the firm's responsibilities to design, implement and operate a system of quality management for assurance engagements. It sets out the responsibilities of the firm for establishing quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to independence. CSQM 1 also deals with the firm's responsibility to establish policies or procedures addressing engagements that are required to be subject to engagement quality reviews. [CSQM 2, Engagement Quality Reviews](#), deals with the appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review. A system of quality management addresses the following eight components:
- (a) the firm's risk assessment process;
 - (b) governance and leadership;
 - (c) relevant ethical requirements;
 - (d) acceptance and continuance of client relationships and specific engagements;
 - (e) engagement performance;
 - (f) resources;
 - (g) information and communication; and
 - (h) the monitoring and remediation process.

Firms or requirements may use different terminology or frameworks to describe the system of quality management.

16. In compliance with [CSQM 1](#), documentation of the examination of a financial forecast may include, where applicable:
- (a) issues identified with respect to compliance with relevant ethical requirements and how they were resolved;
 - (b) conclusions on compliance with independence requirements that apply to the engagement, and any relevant discussions with the firm that support these conclusions;
 - (c) conclusions reached regarding the acceptance and continuance of client relationships and assurance engagements; and
 - (d) the nature and scope of, and conclusions resulting from, consultations undertaken during the course of the engagement.

ACCEPTANCE OF ENGAGEMENT

17. It is important that the nature and terms of the engagement be understood and agreed by the public accountant and management, and that management acknowledge its responsibilities for the financial forecast, the process by which it is prepared, and the assumptions on which it is based.

18. The various securities filing jurisdictions may have varying requirements for the preparation and presentation of financial forecasts and projections. It is important that the public accountant ascertain the jurisdictions in which the prospectus or other public offering document is to be filed, and that management and the public accountant know the specific requirements of these jurisdictions. Certain jurisdictions may have specific requirements in addition to those set out in FUTURE-ORIENTED FINANCIAL INFORMATION, Section 4250, for example, a requirement that hypotheses used in the preparation of a projection be consistent with the issuer's intended course of action. In these circumstances, the public accountant should consider the need for additional examination procedures.
19. When a public accountant is considering whether to accept an engagement to examine a financial forecast or projection, the matters outlined in paragraphs 20-24 warrant particular attention because they may affect the evidence that will be available and dictate whether an unqualified opinion can be expressed.
20. Financial forecasts and projections are based on assumptions regarding future events that are inherently matters of opinion rather than fact. Therefore, it is important that the public accountant consider carefully any request to accept an engagement that will result in the public accountant's becoming associated with a financial forecast or projection. In particular, when requested to report on such information, the public accountant needs to recognize that the ability to provide assurance is dependent on:
 - (a) the availability of suitable support for the assumptions underlying the information (for example, in a start-up operation, management would likely find it difficult and may be unable to provide the necessary suitable support for one or more assumptions); and
 - (b) the extent to which the quality of the information is affected by the nature and significance of hypotheses (for example, while the public accountant may be able to add some meaningful credibility to a projection based on one hypothesis and several assumptions, it is unlikely that he or she would be able to do so for a projection based on many hypotheses).
21. Management is responsible for developing the assumptions and preparing the financial forecast. The public accountant would normally expect management to have a plan for development of its financial forecast. An outline of matters the public accountant would expect to find in such a plan is provided as [Appendix A](#). If, in the public accountant's professional judgment, it is uncertain that the planned process for the development of the financial forecast will result in the public accountant's being able to obtain sufficient evidence to support an unqualified opinion, the public accountant and management should consider whether an engagement should be undertaken.
22. Accounting standards for presentation of a financial forecast require disclosure of significant assumptions. These assumptions may provide an indication of the entity's plans and strategies that management may be unwilling to disclose. Failure to disclose all significant assumptions would prevent the public accountant from issuing an unqualified opinion. Therefore, before commencing an engagement, the public accountant should discuss with management any concerns management may have about disclosing sensitive information.
23. There should be careful consideration of the time period to be covered. Management may want to provide users with information to show the operations of an entity through several operating cycles or to demonstrate the viability of a project (for example, a long-term real estate development). The public accountant should consider whether the period proposed by management extends beyond the point for which such information can be reasonably estimated (see FUTURE-ORIENTED FINANCIAL INFORMATION, paragraphs 4250.15-17) and discuss any concerns with management. Consideration should also be given to applicable regulatory requirements.
24. Before accepting an engagement to examine a financial projection, the public accountant should discuss the hypothesis (or hypotheses) with management to be satisfied that the hypothesis represents plausible circumstances. If, in the public accountant's professional judgment, the hypothesis does not represent plausible circumstances, the information may be false or misleading and the public accountant would be prohibited by the rules of professional conduct from being associated with it.
25. The public accountant should reach an understanding and agreement with the client as to the nature and extent of the services to be provided and the extent of the responsibility assumed by management and the public accountant. Such an understanding and agreement would normally include at least the following matters:
 - (a) the anticipated form of the financial forecast;
 - (b) the period of time to be covered;
 - (c) the fact that management will prepare and present the forecast in accordance with accounting standards set out in the CPA Canada Handbook – Accounting, and in accordance with any applicable securities requirements;
 - (d) the fact that management is responsible for the forecast: its presentation, the process of preparation, and the assumptions used;
 - (e) the fact that management is responsible for obtaining or developing appropriate support for the assumptions sufficient to enable the public accountant to report without reservation;
 - (f) the need for the public accountant to have access to outside specialists and third party reports obtained by management (for example, a feasibility study);
 - (g) the anticipated form and content of the public accountant's report; and

- (h) the fact that the public accountant has no responsibility to update his or her report for events and circumstances occurring after the date of that report.
26. When agreement has been reached, it is highly desirable that it be put in writing to avoid misunderstandings. An example of an engagement letter is provided as [Appendix B](#).

UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT

27. The public accountant should possess or obtain a sufficient understanding of the entity and its environment, including the accounting principles and practices of the industry in which the entity operates, or will operate, to enable him or her to conduct the examination of the financial forecast effectively.
28. The public accountant should also possess or obtain a sufficient understanding of the entity and its environment to enable him or her to understand the events, transactions and practices that may have a significant effect on the financial forecast or on his or her examination. The public accountant should focus on such areas as:
- (a) the availability and cost of resources needed for the entity to operate (principal items usually include raw materials, labour, short-term and long-term financing, and plant and equipment);
 - (b) the nature and condition of markets in which the entity sells its goods or services, including final consumer markets if the entity sells to intermediate markets;
 - (c) factors specific to the industry, including competitive conditions, sensitivity to economic conditions, accounting policies, specific regulatory requirements, and technology; and
 - (d) patterns of past performance for the entity and comparable entities including trends in revenue and costs, turnover of assets, uses and capacities of physical facilities, and management policies.
29. The public accountant will need an understanding of the historical cost financial statements and knowledge of the accounting principles underlying them to determine whether the financial forecast is prepared on a basis consistent with that used to prepare the historical cost financial statements.

EXAMINATION PROCEDURES

30. When undertaking an examination of a financial forecast, professional judgment is required in determining the nature, timing and extent of the procedures applied. Since the development of the assumptions by management is critical to the preparation of a financial forecast, the public accountant will need to focus significant effort on such assumptions.

The process of developing the forecast

31. In order to determine the nature, timing and extent of examination procedures, the public accountant should review the entity's forecasting process to understand how management identifies the effect of future events and changes in the entity's operating environment, identifies and develops the assumptions, and uses these assumptions to develop a financial forecast. This would include reviewing the entity's previous forecasts, calculations and assumptions, and obtaining and evaluating explanations of the differences between previous forecasts and the actual results for those periods.
32. The forecasting process may include policies and procedures the effectiveness of which the public accountant may wish to evaluate for the purpose of his or her examination. In these cases, the public accountant would develop appropriate examination procedures to establish whether such policies and procedures were operating effectively.
33. In preparing a financial forecast, management may use statistical, mathematical or specialized forecasting techniques in developing its assumptions and information. The public accountant may require the assistance of specialists to obtain an adequate understanding of the development of assumptions and information using such techniques.
34. A financial forecast may include actual financial results of an expired portion of the forecast period disclosed separately as a component of the financial forecast. The public accountant's responsibilities for such actual financial results are set out in AUDITOR'S CONSENT TO THE USE OF A REPORT OF THE AUDITOR INCLUDED IN AN OFFERING DOCUMENT, Section [7150](#).

Assumptions

35. The public accountant seeks evidence to establish that management has identified and supported all assumptions necessary for the preparation of the financial forecast and whether these assumptions, individually and taken as a whole, provide a reasonable basis for the financial forecast.
36. There are distinct differences in the nature of assumptions and the information from which they are developed:
- (a) Assumptions based on information that falls within the control of management, relates directly to the entity, and can be documented (for example, the entity's records and analyses of labour costs).
 - (b) Assumptions based on general economic factors that are beyond the control of management, are not specific to the entity's circumstances, and must be interpreted and analyzed for application to the entity (for example, interest rates, inflation rate).
 - (c) Assumptions based on information supplied or agreed by independent parties outside the entity (for example, a commitment by a responsible party to buy a quantity of goods produced at a specific price).
 - (d) Assumptions based primarily on management's representations about the entity's plans (for example, management's plans to manufacture and market a new product).

- (e) Assumptions based on information that may be subject to frequent large and unpredictable changes (for example, some currency exchange rates, commodity prices).
37. When the published financial forecast consists only of one statement, it is important that the public accountant's work include consideration of the interrelationship of items in other statements. For example, if the financial forecast consists of a forecast income statement, certain elements (such as interest expense) frequently cannot be estimated reliably without a forecast of cash flow and financial position.
38. In evaluating whether the assumptions provide a reasonable basis for management's financial forecast, the public accountant should consider the following:
- (a) Whether sufficient pertinent sources of information about the assumptions have been considered by management. Examples of external sources are government publications, industry publications, economic forecasts, patents, underwriting agreements, royalty agreements, sales contracts, feasibility studies and labour contracts. Examples of internal sources are budgets, historical production data such as costs, royalty records, sales backlog records and actions of the board of directors involving entity plans.
 - (b) Whether the assumptions are consistent with the sources from which they are derived.
 - (c) Whether the assumptions are internally consistent.
 - (d) Whether the historical financial and other information used in developing the assumptions is sufficiently reliable for that purpose. Reliability can be assessed by inquiry and analytical or other procedures, some of which may have been carried out in previous engagements for the entity. If historical financial statements have been prepared for an expired part of the forecast period, the public accountant should consider the financial forecast in relation to the historical data.
 - (e) Whether the historical financial information and other data used in developing the assumptions are comparable over the periods specified or whether the effects of any lack of comparability were considered in developing the assumptions.
 - (f) Whether the assumptions are consistent with the plans, policies and budgets of the entity (for example, courses of action approved by the board of directors or set out in letters of intent).
 - (g) Whether there is any bias in the selection of assumptions by management that causes the assumptions, on an overall basis, to be unduly optimistic or pessimistic.

Hypotheses

39. FUTURE-ORIENTED FINANCIAL INFORMATION, paragraph 4250.13, requires that a hypothesis represent plausible circumstances. Prior to accepting an engagement to examine a financial projection (see paragraph 24) and during the performance of such an examination, the public accountant should consider whether the hypothesis represents plausible circumstances.
40. FUTURE-ORIENTED FINANCIAL INFORMATION, paragraph 4250.13, also requires that a hypothesis be consistent with the purpose of the projection. The public accountant's procedures should be directed to determining whether the hypothesis is consistent with this stated purpose. Because this involvement is limited, it is important that the public accountant consider the adequacy of the disclosures provided for projections (see paragraph 4250.44). Given the hypothesis, the assumptions used in a projection should meet the criteria for assumptions set out in paragraphs 4250.08-.14.

Preparation and presentation of financial forecast

41. Although the specific procedures will vary, in evaluating the preparation and presentation of the financial forecast, the public accountant should perform procedures that will provide evidence that:
- (a) the assumptions are reflected in the forecast;
 - (b) computations made to translate the assumptions into forecast amounts are mathematically accurate;
 - (c) accounting policies used in the forecast are consistent with the accounting policies expected to be used in the historical financial statements covering the forecast period and consistent with those used in the most recent historical financial statements, if any; and
 - (d) the financial forecast meets the presentation and disclosure standards set out in FUTURE-ORIENTED FINANCIAL INFORMATION, paragraphs 4250.20-.46.
42. When a financial forecast does not include a full set of financial statements, the public accountant would need to consider whether the financial statements not presented include information necessary for users to evaluate the financial prospects of the entity.

Management representations

43. At the completion of the examination and before releasing the report, the accountant should obtain a letter, dated as of the date of his or her report, recording important representations made to him or her by management during the course of the examination. An example of such a representation letter is provided as [Appendix C](#).

REPORTING

44. The public accountant's report on a financial forecast should consist of three paragraphs:

- (a) a first (scope) paragraph, which specifically identifies the forecast financial statements presented by the entity, describes the nature of the examination, and states that the public accountant has no responsibility to update his or her report for events and circumstances occurring after the date of the report;
 - (b) a second (opinion) paragraph, which includes an opinion as to whether:
 - (i) as at the date of the report, the assumptions developed by management are suitably supported and consistent with the plans of the entity, and provide a reasonable basis for the forecast;
 - (ii) the forecast reflects such assumptions; and
 - (iii) the financial forecast complies with the presentation and disclosure standards set out in the CPA Canada Handbook – Accounting; and
 - (c) a third (last) paragraph containing a commentary that the actual results may vary materially from those forecast and a disclaimer concerning the achievability of the results forecast.
45. Management determines the effective date of the assumptions used in the preparation of the financial forecast. Disclosure of this date in the financial forecast alerts readers to the fact that events occurring subsequent to this date may affect the usefulness of the information presented. The public accountant's report should be dated no earlier than the date on which the public accountant has obtained sufficient appropriate evidence on which to base his or her report, which should not be earlier than the effective date of the assumptions disclosed in the financial forecast. Normally, the public accountant would want to use the same date for his or her report as that used by management as the effective date of the assumptions because the public accountant is responsible for considering events occurring up to the date of the report.
46. In most cases, management will be required to update its forecast after it is released. Therefore, unless management and the public accountant agree on an amendment to the terms of the engagement, the public accountant should state that he or she has no responsibility to update his or her work or opinion beyond the date of the report.
47. When a public accountant reports on a financial forecast, it is suggested that the report be addressed to the directors and worded as follows:

AUDITOR'S REPORT ON FINANCIAL FORECAST 1

To the Directors of

The accompanying financial forecast of consisting of a balance sheet as at [date] and the statements of income, retained earnings and cash flows for the [period(s)] then ending has been prepared by management using assumptions with an effective date of I have examined the support provided by management for the assumptions, and the preparation and presentation of this forecast. My examination was made in accordance with the applicable Assurance and Related Services Guideline set out in the CPA Canada Handbook – Assurance. I have no responsibility to update this report for events and circumstances occurring after the date of my report.

In my opinion:

- as at the date of this report, the assumptions developed by management are suitably supported and consistent with the plans of the Company, and provide a reasonable basis for the forecast;
- this forecast reflects such assumptions; and
- the financial forecast complies with the presentation and disclosure standards for forecasts set out in the CPA Canada Handbook – Accounting.

Since this forecast is based on assumptions regarding future events, actual results will vary from the information presented and the variations may be material. Accordingly, I express no opinion as to whether this forecast will be achieved.

City(signed) Date PRACTITIONER

48. When reporting on a financial projection, the public accountant's report would also:
- (a) state in an introductory (first) paragraph that the financial projection has been prepared using assumptions that include a hypothesis;
 - (b) state in the scope paragraph that since a hypothesis need not be supported, the public accountant's procedures with respect to the hypothesis were limited to evaluating whether it was consistent with the purpose of the projection; and
 - (c) state in the opinion paragraph whether the hypothesis is consistent with the purpose of the projection.
49. When a public accountant reports on a financial projection, it is suggested that the report be addressed to the directors and worded as follows:

AUDITOR'S REPORT ON FINANCIAL PROJECTION

To the Directors of

The accompanying financial projection of consisting of a balance sheet as at [date] and the statements of income, retained earnings and cash flows for the [period(s)] then ending has been prepared by management using assumptions, including the hypothesis set out in Note ..., with an effective date of

Since a hypothesis need not be supported, my procedures with respect to it were limited to evaluating whether it was consistent with the purpose of this projection described in Note I have also examined the support provided by management for the other assumptions, and the preparation and presentation of the projection. My examination was made in accordance with the applicable Assurance and Related Services Guideline set out in the CPA Canada Handbook – Assurance. I have no responsibility to update this report for events and circumstances occurring after the date of my report.

In my opinion:

- the hypothesis is consistent with the purpose of this projection;
- as at the date of this report, the other assumptions developed by management are suitably supported and consistent with the plans of the Company, and provide a reasonable basis for the projection, given the hypothesis;
- this projection reflects the hypothesis and the other assumptions; and
- this financial projection complies with the presentation and disclosure standards for projections set out in the CPA Canada Handbook – Accounting.

Since this projection is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothesis occurs, and the variations may be material. Accordingly, I express no opinion as to whether this projection will be achieved.

City(signed) Date PRACTITIONER

COMMUNICATIONS WITH SECURITIES REGULATORY AUTHORITIES

50. AUDITOR'S CONSENT TO THE USE OF A REPORT OF THE AUDITOR INCLUDED IN AN OFFERING DOCUMENT, Section 7150, sets out the auditor's responsibilities and procedures for communicating with securities regulatory authorities in connection with a preliminary prospectus and before such authorities accept the final prospectus.
51. The public accountant's signed report on a financial forecast or projection would be included in the final prospectus.
52. In some circumstances, the public accountant's report on a financial forecast or projection included in a preliminary prospectus would not be signed nor would the public accountant's name appear in the signature position below the report.
53. Securities regulatory authorities generally require a letter from the auditor expressing negative assurance on financial statements in a preliminary prospectus when his or her report on the audited financial statements is unsigned. When a preliminary prospectus includes the public accountant's draft unsigned report on a financial forecast or projection, the letter should also include wording such as the following before the last paragraph of the letter illustrated in [Appendix 5](#) of AUDITOR'S CONSENT TO THE USE OF A REPORT OF THE AUDITOR INCLUDED IN AN OFFERING DOCUMENT, Section 7150.

The preliminary prospectus includes the financial forecast of consisting of a balance sheet as at [date] and the statements of income, retained earnings and cash flows for the [period(s)] then ending. I am [also] withholding my signature from the draft report on this financial forecast pending:

- (a) the finalization of the financial forecast by management as of a date close to the date of the final prospectus;
- (b) obtaining evidence of a firm commitment for the proposed financing;
- (c) reviewing comments that may be issued by the Commission; and
- (d) reading the final prospectus.

Based on the results of my procedures to date relating to the examination of the financial forecast, nothing has come to my attention that causes me to believe:

- (a) that as at the date of this letter, the assumptions developed by management are not suitably supported and consistent with the plans of the Company, or that the assumptions do not provide a reasonable basis for the forecast;
 - (b) that the forecast does not reflect such assumptions; or
 - (c) that the financial forecast does not comply with the presentation and disclosure standards set out in the CPA Canada Handbook – Accounting.
54. In some cases, the public accountant may be able to complete his or her examination of the financial forecast or projection and include a signed report in the preliminary prospectus. If this is done, a new forecast or projection (with an effective date close to the date of the final prospectus) will have to be prepared by management and reported on by the public accountant for inclusion in the final prospectus.

APPENDIX A

MANAGEMENT'S PLAN FOR DEVELOPMENT OF A FORECAST

An outline of matters the public accountant would expect in such a plan

1. Prepare or update the plan for preparation of the forecast (instructions, due care, etc.).

2. Ascertain specific requirements of jurisdictions in which the forecast is to be filed.
 3. Identify people with the necessary objectivity and integrity, knowledge, skills and judgment, including specialists who will prepare and review the forecast.
 4. Develop or review the management information system which will identify and supply the key variables (underlying data, evidence).
 5. Identify corporate plans and strategies that affect the forecast.
 6. Preparation of the forecast.
 - Assemble, review and assess key variables. Consider completeness and consistency.
 - Develop assumptions. Consider completeness and consistency. Determine sensitivity. Consider relevant historical information. Gather documentation and support.
 - Prepare forecast and determine changes, if any, required in business plan to ensure consistency.
 - Compile the statements from the assumptions.
 - Consider presentation and disclosure requirements in Section 4250 and in securities regulations.
1. Arrange for review and approval by management (including board of directors).
 2. Determine requirements for updating the forecast and reporting actual results compared to the forecast. Develop plans to meet these requirements.
 3. Prepare a comprehensive memorandum summarizing the process of preparing the financial forecast and the conclusions of management concerning it (for example, reasonableness of the time period covered, appropriateness of assumptions, accounting principles used, planned courses of action, etc.). Arrange for review and signature by the senior financial and operating management people responsible for preparation of the forecast.

APPENDIX B

EXAMPLE OF AN ENGAGEMENT LETTER

This example is provided to assist the public accountant who wishes to use an engagement letter as a record of the agreement reached with the client to examine and report on a financial forecast. Appropriate amendments should be made to take into account the circumstances of each engagement.

(Addressee)

(The addressee should be a person having the necessary authority to sign on behalf of the company, for example, the president.)
..... Company Limited

Dear

As a result of my conversation with you on (date), I am summarizing my understanding of the terms of my engagement to examine and report on the financial forecast consisting of a balance sheet as at (date) and the statements of income, retained earnings and cash flows of Company Limited for the (period(s)) then ending. I understand that these statements together with my unsigned report thereon will be included in a preliminary prospectus to be filed with by (date).

The company's responsibility

The forecast will be based on assumptions which management believes are appropriate, i.e., reasonable and supportable assumptions that reflect the most probable set of economic conditions and planned courses of action. The financial forecast will be prepared and presented in accordance with accounting standards set out in the CPA Canada Handbook – Accounting and in accordance with any applicable securities requirements. The company and its officers and directors bear sole responsibility for the development of the assumptions and for the forecast.

The statements will be prepared in accordance with the generally accepted accounting principles and in accordance with accounting policies that the company anticipates will be used for the annual historical cost financial statements for the period covered by the forecast. Unless otherwise advised, these principles and policies will be consistent with those used in the historical financial statements for (latest financial year).

The forecast will be prepared under the direction of, Vice-President and Treasurer, who will prepare a comprehensive memorandum setting out the procedures followed in the preparation of the forecast, the assumptions on which the forecast is based, an analysis of the extent to which the forecast is based on actual results, and a comparison of significant forecast information with comparable information from prior years' forecasts and actual results.

It is understood that in conducting my examination, I will have access to all company documents and records and to other outside sources of information used by management in developing their assumptions (for example, outside specialists consulted by the company).

Prior to releasing my report on the examination of the company's financial forecast statements, the board of directors of the company will formally approve the statements and management will provide me with an appropriate letter of general representation.

My examination and report

I will conduct my examination and will report in accordance with the applicable Assurance and Related Services Guideline set out in the CPA Canada Handbook – Assurance. My examination will be directed to ascertaining whether, in my opinion:

- (a) the assumptions developed by management are suitably supported and consistent with the plans of the Company, and provide a reasonable basis for the forecast;
- (b) the financial forecast reflects those assumptions; and
- (c) the financial forecast complies with the presentation and disclosure standards for forecasts set out in the CPA Canada Handbook – Accounting.

My examination is not and cannot be directed to provide assurance about the achievability of the financial forecast.

The securities regulatory authorities in the jurisdiction where the preliminary prospectus is to be filed will not accept a qualified report. Consequently, if circumstances arise such that I would not be able to issue an unqualified report, I will not be able to complete the engagement.

I expect that my report will be worded as follows:

(See suggested wording of report in paragraph [47](#).)

Also, if as a result of my examination I have any suggestions for significant improvements in the forecasting systems or other related matters for your use in subsequent forecasts, I will report these to you.

Fees will be determined on the basis of time spent on this engagement. Any disbursements will be added to the billing.

If the services outlined are in accordance with your requirements and if the above terms are acceptable to you, please sign the copy of this letter in the space provided and return it to me.

Yours very truly,

..... PRACTITIONER

The terms of engagement set out above are as agreed.

.....Company Limited

Per: (Name and title of the addressee)

Date

APPENDIX C

EXAMPLE OF A GENERAL LETTER OF REPRESENTATION

This example is provided to assist the public accountant who wishes to use a general letter of representation as a record of important representations made to him or her by management during the course of his or her examination. Appropriate amendments should be made to take into account the circumstances of each engagement.

..... Practitioner

Dear

We are writing at your request to confirm our understanding that the examination you have made was directed to the expression of an opinion as to whether the assumptions made by management provide an appropriate basis for Company Limited's financial forecast which consists of a balance sheet as at (date) and the statements of income, retained earnings and cash flows for the (period(s)) then ending, whether the forecast reflects such assumptions, and whether the forecast complies with the presentation and disclosure standards for forecasts set out in the CPA Canada Handbook – Accounting.

We confirm, to the best of our knowledge and belief, the following representations made to you during your examination:

1. All accounting and financial records and related data of the company have been made available to you, and you have been made aware of and given access to outside sources of information where the company relied on these sources.
2. The assumptions underlying the forecast reflect management's judgment as to the most probable set of economic conditions and the company's planned courses of action for (period). These assumptions are supportable and consistent with the plans of the company, and are reflected in the forecast. All such assumptions have been disclosed to you.
3. The accounting policies used in the forecast are applied on a basis consistent with the accounting policies expected to be used by the company in its historical financial statements covering the forecast period, and used by the company in preparing the historical financial statements for the year ended (date).
4. The forecast has been compared to the company's budgets and operating plans and any inconsistencies between the two have been disclosed to you. All information necessary for a reasoned evaluation of the forecast has been disclosed to you and, except as disclosed to you, no events are expected to occur or are pending and no facts have been discovered to date which would have a material effect on this forecast, including items of such significance to the company as would require changes in the assumptions or disclosure in the forecast.

The financial forecast together with supporting documentation for the principal assumptions has been reviewed by management and the board of directors. At a directors' meeting on (date), the directors and management of the company

acknowledged their sole responsibility for the preparation of the forecast and for the determination and appropriateness of the assumptions used. To the best of our knowledge and belief, this forecast represents the company's current best estimate of the most probable forecast for the period.

Yours very truly,

.....
President,
..... Company Limited

Footnotes

1. The general term "public accountant" has been used throughout the document. It is anticipated, however, that in most circumstances the examination will be performed by the entity's auditor.
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Help desk: Mon-Fri, 9am-5pm ET [1-866-256-6842](#) [Contact Us](#) [Quick Reference Guide](#)

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