

FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS: CAS 700

Forming an Opinion on the F/S

- The auditor forms an opinion on whether the F/S are prepared, in all material respects, in **accordance with the applicable financial reporting framework (i.e. GAAP)**
- Conclude as to whether the auditor has obtained reasonable assurance about whether the F/S as a whole are **free from material misstatement, whether due to fraud or error**
- Evaluate whether F/S are prepared, in accordance with the requirements of the applicable financial reporting framework; therefore consider the following:
 - **Qualitative aspects** of the entity's accounting practices
 - Indicators of **possible bias** in management's judgments
 - The F/S adequately **disclose** the significant accounting policies selected and applied
 - The accounting policies selected and applied are **consistent** with the applicable financial reporting framework and are **appropriate**
 - The **accounting estimates** made by management are **reasonable**
 - The information presented in the F/S is **relevant, reliable, comparable** and **understandable**
 - The F/S provide **adequate disclosures** to enable the users to understand the effect of material transactions and events
 - The **terminology** used in the F/S and **title** of each F/S is appropriate
 - When the F/S are prepared in accordance with a fair presentation framework, evaluate whether the F/S achieve fair presentation
 - Evaluate whether the F/S adequately refer to or describe the applicable **financial reporting framework**

Form of Opinion

- Express an **unmodified opinion** when the auditor concludes that the F/S are prepared, in all material respects, in **accordance** with the applicable **financial reporting framework**
- **Modify the opinion** in the auditor's report in accordance, if the auditor:
 - Concludes that, based on the audit evidence obtained, the F/S as a whole are **not free from material misstatement**
 - Is **unable to obtain sufficient appropriate audit evidence** to conclude that the financial statements as a whole are free from material misstatement

Auditor's Report

- The auditor's report should be **in writing**
- The auditor's report should have a **title** that clearly indicates that it is the **report of an independent auditor**
- The auditor's report should be **addressed** as required by the circumstances of the engagement

Introductory Paragraph

- The introductory paragraph in the auditor's report should:
 - **Identify the entity** whose F/S have been audited
 - State that the **F/S have been audited**
 - Identify the **title of each statement** that comprises the F/S
 - Refer to the **summary of significant accounting policies** and other explanatory information
 - Specify the **date or period covered by each F/S** comprising the F/S

Management's Responsibility for the Financial Statements

- The auditor's report should describe **management's responsibility for the preparation of the F/S**
 - Include an explanation that **management is responsible for the preparation of the F/S** in accordance with the applicable financial reporting framework **and** for such **internal control** necessary to enable the preparation of F/S that are free from material misstatement, whether due to fraud or error

Auditor's Responsibility

- The auditor's report should state:
 - That the **responsibility of the auditor** is to **express an opinion** on the F/S based on the audit
 - That the audit was conducted in accordance with **Canadian generally accepted auditing standards and** that those standards require that the auditor **comply with ethical requirements** and that the auditor plan and perform the audit to obtain reasonable assurance about whether the F/S are free from material misstatement
- The auditor's report should **describe an audit by stating that:**
 - An audit involves **performing procedures** to obtain audit evidence about the amounts and disclosures in the F/S
 - The **procedures selected** and the **assessment of the risks of material misstatement** of the F/S, whether due to fraud or error, is dependent on the auditor's judgment. In making those risk assessments, the auditor considers **internal control relevant to the entity's preparation of the F/S** in order to design audit procedures that are appropriate, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control
 - An audit also includes evaluating the **appropriateness of the accounting policies** used and the **reasonableness of accounting estimates** made by management, as well as the overall presentation of the F/S
- Also state whether the auditor believes that the **audit evidence** the auditor has obtained is **sufficient and appropriate to** provide a basis for the auditor's opinion

Auditor's Opinion

- **Unmodified opinion** on F/S prepared in accordance with a **fair presentation framework:**
 - The F/S present fairly, in all material respects, ... in accordance with the applicable financial reporting framework; or
 - The F/S give a true and fair view of ... in accordance with the applicable financial reporting framework
- **Unmodified opinion** on F/S prepared in accordance with a **compliance framework:**
 - F/S are prepared, in all material respects, in accordance with the applicable financial reporting framework
- If the auditor **addresses other reporting responsibilities in the auditor's report** on the F/S that are in addition to the auditor's responsibility under the CASs to report on the F/S, address these responsibilities in a **separate section in the auditor's report** called "**Report on Other Legal and Regulatory Requirements**"
- The auditor's report should be **signed** (signature is either in the name of the audit firm, the personal name of the auditor or both)
- The auditor's report should be **dated no earlier than** the date on which the auditor has obtained **sufficient appropriate audit evidence** on which to base the auditor's opinion on the F/S, including evidence that:
 - All the **statements** that comprise the F/S, including the notes, have been **prepared**; and

- Those with the recognized authority (i.e. the board of directors) have taken **responsibility for the F/S**
- The audit report should contain the name of the location in the jurisdiction where the auditor practices

Example of an Audit Report

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Financial Statements

We have audited the accompanying financial statements of ABC Company, which comprise the statement of financial position as at December 31, 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of ABC Company as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]