Understanding reports on financial statements
A Chartered Accountant’s signature is synonymous with objectivity, reliability, and credibility. CAs are proven financial experts. The CA’s signature on an audit report means the CA has conducted an examination of an organization’s books and has expressed an informed opinion on the fairness of the financial information. It is important to know that not all financial statements are audited. Many small businesses don’t need an audit. Their reporting needs can be met in other ways described in this brochure. An audit, however, does provide the highest level of assurance and is the most reliable service available to the public. Whether a CA is required to perform an audit or simply a review, those who read financial statements and accompanying notes can trust the highest standards of competency and professionalism found in a Chartered Accountant. CAs are proven financial experts, management, and business advisors.
Financial Statements
What’s in them

It is management’s responsibility to prepare financial statements.

But in some cases, organizations without financial expertise may engage the services of Chartered Accountants to prepare financial statements on their behalf.

Fiscal year financial statements prepared for a company or other organization in accordance with Canadian generally accepted accounting principles (GAAP)* normally include:

• a balance sheet, which shows assets and liabilities at year end,
• a statement of income, which shows the results of operations for the year,
• a statement of retained earnings, which summarizes changes in equity during the year,
• a statement of cash flows, which shows operating, investing, and financing activities, and how these activities affect the cash position, and
• notes to financial statements, which are an integral part of financial statements, and which provide additional explanations and details concerning financial statement items.

As well, there may be schedules attached which can provide even more detailed information relating to items disclosed in the financial statements.

*Canadian generally accepted accounting principles are independent standards set by the CA profession for Canadian business.
<table>
<thead>
<tr>
<th>TYPES OF REPORTS</th>
<th>Chartered Accountants provide three levels of service in association with financial statements</th>
</tr>
</thead>
</table>
| 1                | 1. AUDIT
| 2                | 2. REVIEW
| 3                | 3. COMPILATION
|                  | Each of these services lends different levels of credibility to the statements, depending on the nature of involvement. For each service, the CA provides a different report which communicates the extent of work performed and the degree of responsibility accepted by the CA. |
Standards and procedures for audits, reviews, and compilations are established by the Canadian Institute of Chartered Accountants (CICA). The CICA Handbook prescribes Canadian generally accepted accounting principles and Canadian generally accepted auditing and Canadian review standards for Canadian companies and other organizations.

Because of the differences in the amount of work performed, the cost to perform these services varies accordingly.

* not false or misleading; notice to reader
AUDIT

**Report provided:**
Auditor's report

**Level of assurance:**
The Auditor's Report provides reasonable assurance to readers

---

Incorporated businesses are legally required to present annual audited financial statements to shareholders. The law allows some smaller companies to waive an audit provided certain conditions are met.

An audit of financial statements by an independent expert may be required for various reasons. For example, a company’s banker may require an audit to support an application for financing; an audit may be necessary when negotiating the purchase or sale of a business; or management or owners may find value in having an audit, particularly when performed by a CA.

An auditor of a corporation is responsible to the shareholders. On behalf of shareholders, an auditor examines the company’s financial records and operations to determine whether the information reported in the financial statements is presented fairly. The CA communicates this assessment to shareholders through the expression of the audit opinion.

It is important to remember that, in the end, management is responsible for the preparation and release of the financial statements.

---

Below is a sample of an unqualified Auditor’s report.

**Auditor’s report**

1. To the Shareholders of *(COMPANY NAME)*
2. I have audited the balance sheet of *(COMPANY NAME)* as at *(DATE)* and the statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the company’s management. My responsibility is to express an opinion on these financial statements based on my audit.
3. I conducted my audit in accordance with Canadian generally accepted auditing standards *(4)*. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, *(5)* evidence supporting the amounts and disclosures in the financial statements. An audit also includes *(6)* assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.
4. In my opinion, these financial statements present fairly, in all material respects *(8)*, the financial position of the company as at *(DATE)* and the results of its operations and its cash flow for the year then ended in accordance with Canadian generally accepted accounting principles *(9)*. As required by the Company Act of British Columbia, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.*

Anytown, Anyprovince Signed
Date *(10)* CHARTERED ACCOUNTANT *(11)*

* For the province of British Columbia only
EXPLANATION OF THE CONTENTS OF THE AUDITOR’S REPORT

(1) ADDRESSEE – The auditor’s report is addressed to shareholders because that is the primary group to whom the auditor is responsible in corporate audits. The auditor’s report for other organizations is addressed as appropriate (e.g., to the members or board of directors for non-profit organizations).

(2) INTRODUCTORY PARAGRAPH – The financial statements being reported on are identified. The respective responsibilities of management and the auditor regarding the financial statements are explicitly stated. The date is the organization’s year end.

(3) SCOPE PARAGRAPH – A description of the audit examination is provided.

(4) CANADIAN GENERALLY ACCEPTED AUDITING STANDARDS (GAAS) – These standards require that those performing the audit have adequate technical training and proficiency in auditing. The examination should be planned and performed with due care and with an objective state of mind. The standards also require that sufficient evidence is obtained during the audit to support the financial statements’ contents. This evidence is acquired through:

• inspection
• observation
• enquiry
• confirmation
• computation
• analysis.

These standards are developed and published in the CICA Handbook.

(5) ON A TEST BASIS – The auditor does not undertake a total verification of all transactions but applies independent professional judgement to determine the nature, extent, and timing of tests of transactions.

(6) ASSESSING AND EVALUATING – The auditor makes judgements in applying GAAS regarding management’s application of accounting principles and financial statement presentation.

(7) OPINION PARAGRAPH – The auditor does not present a statement of facts. The audit results in an informed professional opinion based on an assessment of internal control, an examination, on a test basis, of the enterprise’s accounting records, and other supporting evidence.

(8) PRESENT FAIRLY IN ALL MATERIAL RESPECTS – The information in the financial statements requires estimates and judgements with the objective to present fairly. In the auditor’s opinion, estimates and disclosures, although not exact and subject to some difference of opinion, do not mislead informed readers in any material way.

(9) CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) – The manner of recording and measuring transactions and the methods of classification and presentation are based on basic concepts of accounting. Canadian standards are developed and published by the CICA. Any significant item that has not been properly treated or disclosed on a consistent basis in accordance with those principles must be mentioned in the audit report as a qualification of the opinion.

(10) DATE – The date indicates the date up to which the auditor sought evidence to support the opinion expressed in the auditor’s report.

(11) CHARTERED ACCOUNTANT – Regulation of who may perform audits in Canada is a provincial matter. In some provinces, only a Chartered Accountant may perform audits because of the CA’s very high standards of training and performance. Consequently, readers should check to ensure the auditor has met the highest standards, i.e., the CA designation.
A review is not as extensive as an audit (but is more extensive than a compilation) and therefore, provides less assurance and credibility to the financial statements.

A review consists primarily of enquiry, analytical procedures, and discussion, and can be useful for companies not legally required to file audited financial statements. This type of report is useful when a company doesn’t need audited financial statements but management or third parties (e.g., banks, granting agencies, etc.) want some assurance that the financial statements are plausible.

A Chartered Accountant reviews financial statements in accordance with established professional standards. If the CA discovers the financial statements deviate from Canadian generally accepted accounting principles (GAAP), this fact is disclosed in the review engagement report.

Plausibility is the guide for the CA preparing a review engagement report. The CA accepts financial information from the client, and applies Canadian generally accepted standards for review engagements to determine the plausibility of the financial information. It must appear plausible based on the CA’s knowledge of the client’s operations and the industry, and based on the procedures performed by the CA.

The following is a standard Review engagement report:

Review engagement report

(1) To (person engaging the Chartered Accountant)

(2) I have reviewed the balance sheet of (COMPANY NAME) as at (DATE), and the statements of income, retained earnings and cash flows for the year then ended. (3) My review was made in accordance with Canadian generally accepted standards for review engagements and, accordingly, consisted primarily of enquiry, analytical procedures and discussion related to information (4) supplied to me by the company.

(5) A review does not constitute an audit and consequently I do not express an audit opinion on these financial statements.

(6) Based on my review, nothing has come to my attention that causes me to believe that these financial statements are not, in all material respects, in accordance with Canadian generally accepted accounting principles.

Anytown, Anyprovince

Date (7) CHARTERED ACCOUNTANT (8)

Signed
EXPLANATION OF THE REVIEW ENGAGEMENT REPORT

(1) ADDRESSEE – The review engagement report is usually addressed to the person who has engaged the accountant.

(2) IDENTIFY STATEMENTS – Financial statements prepared by management and reviewed by the Chartered Accountant are identified.

(3) NATURE OF REVIEW – The scope of the CA's review is described.

(4) IDENTIFY SOURCE OF INFORMATION – The source of information used in preparing the financial statements, and on which the financial statements are based, is identified.

(5) STATE NO AUDIT PERFORMED/DISCLAIM OPINION – The CA clearly states that no audit was conducted and audit evidence was not obtained on each financial statement item. Therefore, no audit opinion is expressed.

(6) NEGATIVE ASSURANCE – This form of reporting informs the reader that a review was completed in accordance with CICA standards. Although sufficient evidence was not obtained to allow the CA to express an audit opinion, nothing has come to the CA's attention causing a belief that the information being reported on is not, in all material respects, in accordance with Canadian GAAP.

(7) DATE – The date indicates the date up to which the review engagement CA has reviewed corporate activity to support the negative assurance opinion being expressed.

(8) CHARTERED ACCOUNTANT – Regulation of who may perform reviews in Canada is a provincial matter. In some provinces, only Chartered Accountants may perform reviews because of their high standards of training and performance. Consequently, readers should check to ensure the review engagement accountant has met the highest standards, i.e., the CA credential.

“This type of report is useful when a company doesn’t need audited financial statements.”
**Communication provided:**
Notice to reader

**Level of assurance:**
A compilation engagement provides no assurance

For this type of report, the CA compiles the financial statements on behalf of management from information provided by the client. It is not necessary to adhere to Canadian generally accepted accounting principles.

Sometimes estimated financial information is all the client needs (e.g., estimated retail inventories for monthly management statements). Sometimes even incomplete information will suffice (e.g., some accrued expenses may be overlooked for monthly management statements). Owners, management, and any third party users agree there’s no need for a review engagement to determine plausibility, or an audit examination to ensure fairness.

The CA’s responsibility for a compilation is to “compile” financial statements from information provided by management. The CA doesn’t attempt to test accuracy or completeness of information provided, or to determine whether there are departures from Canadian generally accepted accounting principles. No expression of assurance is contemplated in a compilation engagement.

The following is an example of the Notice to reader communication for compilation engagements.

**Notice to reader**

(1) I have compiled the balance sheet of (COMPANY NAME) as at (DATE), and the statements of income, retained earnings, and cash flows for the (PERIOD) then ended from information provided by management.

(2) I have not audited, reviewed, or otherwise attempted to verify the accuracy or completeness of such information.

(3) Readers are cautioned that these statements may not be appropriate for their purposes.

Anytown, Anyprovince  
Signed  
Date  
CHARTERED ACCOUNTANT (4)
EXPLANATION OF THE CONTENTS OF THE NOTICE TO THE READER

(1) NATURE OF ASSIGNMENT – Explicit reference is made as to what work the Chartered Accountant did (i.e., compiled statements from information supplied by management or the proprietor – the CA did not audit or review the statements).

(2) SCOPE LIMITATIONS – It is clearly stated that the CA’s work is limited and did not include an audit or review to assess the accuracy or completeness of the financial information. There is no form of assurance implied by the CA, or expressed on the financial statements.

(3) CAUTION TO READERS – Since management or the proprietor (not the Chartered Accountant) determines the distribution of the statements, it is necessary to convey a caution to readers. The statements may not be appropriate for the users’ purposes.

(4) CHARTERED ACCOUNTANT – Compilation services are not regulated in most provinces. Checking that the compilation was performed by a CA provides comfort that it was prepared by the most qualified professional accountant.

“No expression of assurance is contemplated in a compilation engagement.”
The Institute of Chartered Accountants of Nova Scotia is a professional body of 1,900 CAs and CA students. In cooperation with the Canadian and provincial institutes of Chartered Accountants, ICANS protects the public interest and ensures that CAs are recognized as Canada’s premier accountants and preferred business leaders and advisors, by setting and enforcing the highest professional and ethical standards and by supporting its members in their efforts to enhance their competencies.

For more information on:

Chartered Accountants in your area, call 1-902-425-3291 or email icans.ns.ca.

www.icans.ns.ca