**Report to the Audit Committee—User Guide for Completing the Annual Audit Results**

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**This guide contains instructions for preparing an Annual Audit Results for the Report to the Audit Committee. Referring to this guide is strongly recommended when using the template to complete the** [**Report to the Audit Committee**](http://cmsprd.oag-bvg.gc.ca/intranet/financial-audits/templates/OAG-RAC_Results_15272E.docx)**.**

**Note to teams:**

1. To comply with communication requirements of CAS 260, a report based on this model should be prepared and presented to those charged with governance (the Audit Committee or any other person(s) or organization(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity—CAS 260.10). If it has been determined that addressing the report to the Audit Committee or, where applicable, the Departmental Audit Committee, is not appropriate, determine the appropriate person(s) within the entity’s governance structure with whom to communicate and modify the template accordingly.
2. The template for the Report to the Audit Committee is intended to be a **guide only**. It has been prepared using plain language and its tone has been chosen accordingly. Any material added should respect that style.
3. This document is formatted using Microsoft Word. For technical issues with the template, please contact desktop publishing.
4. Within the body of this document or the template, text in [brackets] includes instructions or is expected to be modified or deleted by audit teams. When the **Report to the Audit Committee** is completed, there should not be any remaining blue text or text in brackets in the document. All the red and green boxes in the template (indicating which pages are “required’’ and “optional’’) should also be removed from the template when the Report to the Audit Committeeis completed.
5. **Except for the sections of the report required by standards and identified as such, the remaining contents of individual reports should be modified according to the professional judgment** of the audit team to best suit the information needs of audit committee members**.** You know your audience best and should tailor the report accordingly.

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# Significant audit, accounting, and financial reporting matters

## Implementation of [new information technology systems / robotic process automation / technology]

|  |
| --- |
| Risk |
| * The implementation of new financial systems creates a risk to the business, as issues with the usage or transfer of data could affect the data gathered by the systems. This risk to the validity of the underlying data could have a pervasive impact on the financial information.
* The adoption of new technologies such as robotic process automation to replace previously manual controls creates risks to the business [Describe risks related to the specific technology].
 |
| Our response |
| * We tested the transfer of data between systems.
* We tested the general computer controls and automated controls to the extent considered appropriate.
* We gained an understanding of issues arising from implementation and related follow‑up activities, and we considered the impact on the reliability of information.
 |
| **Our findings** |
| * [On the basis of our audit work, we do not have any items that we wish to bring to your attention.]
 |

## Going concern and debt covenants

|  |
| --- |
| Risk |
| * The entity must ensure compliance with its debt covenants and its self‑sustaining mandate.Management prepared a paper determining the entity’s compliance with its debt covenants and its self‑sustaining mandate and identifying key assumptions taken into account in its forecasts.
 |
| Our response |
| * We obtained management’s forecasts and key assumptions, and considered the reasonableness of those assumptions.
* We reviewed and challenged forecasts and sensitivity analysis prepared by management to ensure that they reflect the current environment [describe—for example, include impacts resulting from the disruption to the entity’s supply chain].
* We used [insert] [experts/specialists] to support the audit of management’s forecasts.
* We reviewed debt covenants and management’s assessment of a possible breach of covenants.
* We assessed [name of the entity]’s ability to continue as a going concern under the applicable accounting standards.
 |
| **Our findings** |
| * [On the basis of our audit work, we do not have any concerns that we wish to bring to your attention.]
 |

## Impairment of [goodwill and intangible assets]

|  |
| --- |
| Risk |
| * Under IAS 36, management is required to assess the carrying value of goodwill and intangible assets with indefinite lives annually or when an indicator of impairment exists.
* [Include additional discussion of the risk factors that led to the defined level of risk (for example, significant risk) at a specific and detailed level, as applicable to the engagement.]
 |
| Our response |
| * We assessed the method, including any models and data used by management in determining the estimate on a [describe frequency—for example, quarterly] basis and challenged significant assumptions, remained skeptical of explanations, considered potential indications of management bias, and obtained supporting evidence as necessary to ensure that models reflect the current environment, including [describe—for example, continued disruption of the entity’s supply chain].
* We considered whether the models used are appropriate, including checking the related calculations.
* We considered the appropriateness of data used in making the estimate, including the relevance and reliability of data used.
* We discussed significant assumptions underlying cash flow projections with management and understood whether they are achievable.
* We reviewed management’s sensitivity analysis and considered further realistic sensitivity to significant assumptions and underlying cash flows.
* We used valuation experts to support the audit of these balances.
* We assessed whether indications of possible management bias exist within the estimate and when considering judgments collectively across all estimates.
* We considered whether management has appropriately understood and addressed estimation uncertainty and evaluated related financial statement disclosures.
 |
| **Our findings** |
| * [On the basis of our audit work, we do not have any concerns that we wish to bring to your attention.]
 |

# Supplemental guidance A—Significant matters framework for communication

[We normally start with the information communicated in the RAC Plan and add the results of our audit procedures and findings. Below are some additional examples.]

### For significant accounting estimates

Per CAS 540.38 the auditor shall communicate regarding accounting estimates and take into account whether the reasons given to the risks of material misstatement relate to estimation uncertainty, or the effects of complexity, subjectivity or other inherent risk factors in making accounting estimates and related disclosures.

Matters that the auditor may consider communicating with those charged with governance with respect to the auditor's views about significant qualitative aspects of the entity's accounting practices related to accounting estimates and related disclosures include:

1. How management identifies transactions, other events or conditions that may give rise to the need for, or changes in, accounting estimates and related disclosures.
2. Risks of material misstatement.
3. The relative materiality of the accounting estimates to the financial statements as a whole.
4. Management's understanding (or lack thereof) regarding the nature and extent of, and the risks associated with, accounting estimates.
5. Whether management has applied appropriate specialized skills or knowledge or engaged appropriate experts.
6. The auditor's views about differences between the auditor's point estimate or range and management's point estimate.
7. The auditor's views about the appropriateness of the selection of accounting policies related to accounting estimates and presentation of accounting estimates in the financial statements.
8. Indicators of possible management bias.
9. Whether there has been or ought to have been a change from the prior period in the methods for making the accounting estimates.
10. When there has been a change from the prior period in the methods for making the accounting estimate, why, as well as the outcome of accounting estimates in prior periods.
11. Whether management's methods for making the accounting estimates, including when management has used a model, are appropriate in the context of the measurement objectives, the nature, conditions and circumstances, and other requirements of the applicable financial reporting framework.
12. The nature and consequences of significant assumptions used in accounting estimates and the degree of subjectivity involved in the development of the assumptions.
13. Whether significant assumptions are consistent with each other and with those used in other accounting estimates, or with assumptions used in other areas of the entity's business activities.
14. When relevant to the appropriateness of the significant assumptions or the appropriate application of the applicable financial reporting framework, whether management has the intent to carry out specific courses of action and has the ability to do so.
15. How management has considered alternative assumptions or outcomes and why it has rejected them, or how management has otherwise addressed estimation uncertainty in making the accounting estimate.
16. Whether the data and significant assumptions used by management in making the accounting estimates are appropriate in the context of the applicable financial reporting framework.
17. The relevance and reliability of information obtained from an external information source.
18. Significant difficulties encountered when obtaining sufficient appropriate audit evidence relating to data obtained from an external information source or valuations performed by management or a management's expert.
19. Significant differences in judgments between the auditor and management or a management's expert regarding valuations.
20. The potential effects on the entity's financial statements of material risks and exposures required to be disclosed in the financial statements, including the estimation uncertainty associated with accounting estimates.
21. The reasonableness of disclosures about estimation uncertainty in the financial statements.
22. Whether management's decisions relating to the recognition, measurement, presentation and disclosure of the accounting estimates and related disclosures in the financial statements are in accordance with the applicable financial reporting framework.

We present the Office of the Auditor General of Canada’s (OAG’s) views/findings on the matter:

* Outline the audit procedures performed, including any use of experts.
* Include more detail if the actual audit procedures changed from the planned audit approach outlined in our audit plan communication.
* Express a conclusion: Are the accounting estimates reasonable?

### For accounting policies

We provide the background for and/or a description of risk and discuss management’s process for

* qualitative aspects of critical accounting policies
* the initial selection of and changes in significant accounting policies, including the application of new accounting pronouncements (the communication may include the effect of the timing and method of adopting a change in accounting policy on the entity’s current and future earnings and the timing of a change in accounting policies about expected new accounting pronouncements)
* the methods used to account for significant unusual transactions

We also discuss

* the appropriateness of the accounting policies to the entity’s particular circumstances, regarding the need to balance the cost of providing information with the likely benefit to users of the entity’s financial statements (where acceptable alternative accounting policies exist, the communication may identify the financial statement items that are affected by the choice of significant accounting policies and include information on accounting policies used by similar entities)
* the effect of significant accounting policies in controversial or emerging areas or those unique to an industry, particularly when there is a lack of authoritative guidance or consensus
* the effect of the timing of transactions in relation to the period they are recorded in
* why we consider a significant accounting practice that is acceptable under the applicable financial reporting framework to not be the most appropriate to the entity’s particular circumstances

We present the OAG’s views/findings on the matter:

* Outline the audit procedures performed, including any use of experts.
* Include more detail if the actual audit procedures changed from the planned audit approach outlined in our audit plan communication.
* Express a conclusion: Are the accounting policies appropriate?

### For financial statement disclosures

We provide the background for and/or a description of risk and discuss management’s process for

* particularly sensitive financial statement disclosures (for example, disclosures related to revenue recognition, remuneration, going concern, subsequent events, and contingency issues)

We also discuss

* the issues involved and related judgments made in formulating particularly sensitive financial statement disclosures
* the overall neutrality, consistency, and clarity of the disclosures in the financial statements

We present the OAG’s views/findings on the matter:

* Outline the audit procedures performed, including any use of experts.
* Include more detail if the actual audit procedures changed from the planned audit approach stated in the audit plan communication.
* Express a conclusion: Are the financial statement disclosures adequate?

### For related matters

We provide the background for and/or a description of risk and discuss

* the potential effect on the financial statements of significant risks, exposures, and uncertainties, such as pending litigation, that are disclosed in the financial statements
* the extent to which the financial statements are affected by unusual transactions, including non‑recurring amounts recognized during the period, and the extent to which such transactions are separately disclosed in the financial statements
* the selective correction of misstatements (for example, correcting misstatements to increase reported earnings but not those that would decrease reported earnings)

# Supplemental guidance B—Modifications to the standard auditor’s report and key audit matters

[Where an item is applicable to the audit circumstances, include the text below.]

### Emphasis of matter paragraph [if applicable]

An “emphasis of matter” paragraph may be included in the independent auditor’s report following the opinion paragraph when a matter, although appropriately presented or disclosed in the financial statements, is considered by the auditor to be of such importance that it is fundamental to understanding the financial statements.

Without modifying our opinion on the financial statements, we have considered it necessary to include an emphasis of matter paragraph to draw attention to [indicate the matter requiring emphasis]. Please refer to the draft independent auditor’s report in Appendix A for the proposed wording of the emphasis of matter paragraph.

### Other matter paragraph [if applicable]

An “other matter” paragraph in the independent auditor’s report refers to matters other than those presented or disclosed in the financial statements that, in the auditor’s judgment, are relevant to users’ understanding of the audit, the auditor’s responsibilities, or the independent auditor’s report.

Without modifying our opinion on the financial statements, we have included an “other matter” paragraph related to [state the matter]. Please refer to the draft independent auditor’s report in Appendix A for the proposed wording of the other matter paragraph.

### Key audit matters [if applicable]

The draft auditor’s report in Appendix A includes the following key audit matters:

* [List matters].

**Non-compliance with authorities [if applicable]**

[If non‑compliance has been found]

Without qualifying our opinion on the financial statements, we will report the following instance of non‑compliance [or legislative other matter]. [Briefly describe the non‑compliance or legislative other matter to be reported.]

# Supplemental guidance C—Significant matters arising from the audit

[Discuss any other significant matters arising from the audit that are directly relevant to the Audit Committee.

This may include such matters as

* business conditions that affect the entity and business plans and strategies that may affect the risks of material misstatement
* concerns about management’s consultations with other accountants on accounting or auditing matters
* discussions or correspondence about the auditor’s initial or recurring appointment regarding accounting practices and the application of auditing standards
* material misstatements of fact or material inconsistencies in information accompanying the audited financial statements that have been corrected]

We have identified and discussed with management the following matter(s) that we believe may be significant to the Audit Committee’s oversight of the financial reporting process:

#### Non‑compliance with laws and regulations [if applicable]

[*When applicable, communicate matters involving non‑compliance with laws and regulations that came to your attention during the course of the audit, other than when the matters are clearly inconsequential.*]

### Related-party transactions [if applicable]

During the course of our audit, we identified the following significant matters in connection with the entity’s related parties:

[Examples of significant related-party matters include

* non‑disclosure (whether intentional or not) by management to the auditor of related parties or significant related-party transactions
* the identification of significant related-party transactions that have not been appropriately authorized and approved, which may give rise to suspected fraud
* disagreement with management regarding the accounting for and disclosure of significant related-party transactions in accordance with the applicable financial reporting framework
* non‑compliance with applicable law or regulations prohibiting or restricting specific types of related-party transactions
* difficulties in identifying the party that ultimately controls the entity]

### Going concern—significant doubt [if applicable]

During the course of our audit, the following events or conditions were identified that may cast significant doubt on the entity’s ability to continue as a going concern:

[Include in the description of the events

* whether the events or conditions constitute a material uncertainty
* whether the use of the going concern assumption is appropriate in the preparation of the financial statements
* the adequacy of related disclosures in the financial statements
* if applicable, the implications for the auditor’s report]

### Work of the component auditor(s) [if applicable]

* [Communicate instances where the group engagement team’s evaluation of the component auditor’s work gave rise to concern about the quality of the component auditor’s work.
* Communicate any limitations on the group audit—for example, where the group engagement team’s access to information may have been restricted.
* Communicate fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls, or others where the fraud resulted in material misstatement of the group financial statements.]