



YOUR GUIDE TO UNDERSTANDING

# Financial Statements



WE'RE HERE TO HELP YOU

## CGA. YOUR PARTNER IN SUCCESS

As an independent business owner or a busy professional you need accurate financial information and advice that will support your success. Whether it's a statement of earnings for your bank or detailed information for investors, you need information that is respected and credible. That's why it is so important to engage a CGA - a qualified and trusted accounting professional.

When it comes to financial statements, it is important to know that there are three standard types of reports or communications which could be attached to your financial statements: Auditor's Report, Review Engagement Report or a Notice to Reader which is attached to a compilation engagement. Each communication attached to the company's financial statements provides a different level of assurance to the reader of the work performed on the financial statements.

In an audit engagement, the Certified General Accountant provides an Auditor's Report. The report provides reasonable assurance by stating that the financial statements are, in all material respects, fairly presented. It is important to note that an audit does not provide absolute assurance as this would be virtually impossible and the cost of the audit would be prohibitive. The auditor does not present a statement of facts but rather an informed professional opinion based on an assessment of internal controls and an examination, on a test basis, of the entities records and other supporting evidence.

In a review engagement, the Certified General Accountant attaches a Review Engagement Report. This report provides negative assurance by stating that nothing has come to the CGA's attention to cause him or her to believe that the financial statements are not, in all material respects, in accordance with Canadian generally accepted accounting procedures. It is important to note that a review provides less assurance than an audit as the work performed is not as extensive. This type of report is useful when a company doesn't need audited financial statements.

Please note that both audit and review engagement reports refer to the term "in all material respects." This term informs the reader that the records of the entity may include minor or small immaterial

errors or adjustments which may not be identified or reflected in the financial statements. Such minor adjustments would not affect the decisions of the readers of the financial statements.

In a compilation engagement, the Certified General Accountant attaches a Notice to Reader communication. This communication provides no assurance to the reader of the financial statements by stating that the accountant has not audited, reviewed, or attempted to verify the accuracy or completeness of such information. The accountant compiles the information from information provided by management. These financial statements would not be false or misleading to the readers.

Whichever type of engagement that you may need, the most important factor is that you engage a Certified General Accountant. That designation tells the reader that the person or company who audited, reviewed or compiled the statements meets the highest professional standard of performance. It means that they have the breadth of experience in business and have been professionally accredited by B.C.'s leading accounting Association.



## AUDIT ENGAGEMENTS

According to the Company Act of British Columbia (soon to be replaced by the Business Corporations Act), each incorporated company is legally required to have an audit. The law does allow companies that have shares which are not traded on the public market to waive the requirement for an audit provided that certain conditions are met.

Audited financial statements are the accepted means by which most business corporations report to their shareholders, to bankers, to creditors and to the government. Federal and Provincial legislation in Canada generally requires a limited company to prepare annual financial statements for audit by a qualified independent auditor. Specific legislation may also require the auditor to provide other information in the report.

It is important to note that some companies may be exempted from the audit requirement if all shareholders agree, in writing, to waive the appointment of an auditor.

The objective of an audit engagement is to enable an independent public accountant to form an opinion on whether your company's financial statements present fairly the financial

position, results of operations and cash flow. This opinion is given in the form of a written report which normally consists of three paragraphs. The first, or introductory paragraph, identifies the audited statements and sets out the responsibility of management and the auditor; the second, or scope paragraph, concisely states the scope or extent of the audit and informs the reader that professional standards were used in the audit and that evidence is acquired through inspection, observation, enquiry, confirmation, computation and analysis. The last paragraph summarizes the auditor's opinion based on his or her examination.

The audit consists of an examination of the accounting records and other evidence supporting those financial statements. Through the study and evaluation of the company's system of internal control, and by inspection of documents, observation of assets, making of enquiries within and outside the company, and by other generally accepted auditing standards, the auditor will gather the evidence necessary to determine whether the financial statements present a fair picture of the company's financial position and its activities during the period being audited.

A standard sample auditor's report would appear as follows:

### Auditor's Report

To the Shareholders of name of company and address

I have audited the balance sheet of name of company 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.

I conducted my audit in accordance with Canadian generally accepted auditing standards. 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, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the company as at date and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Company Act, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

(signed) \_\_\_\_\_  
Certified General Accountant

City \_\_\_\_\_

Date \_\_\_\_\_

## REVIEW ENGAGEMENTS

The objective of a review engagement is to review financial statements to ascertain whether the statements are plausible and worthy of belief. Where an audit is not required or the shareholders have waived the appointment of an auditor, financial statements may be prepared on a review basis. This degree of assurance is less than that resulting from an audit and is expressed as negative assurance that nothing has come to the accountant's attention that would indicate the financial information is not presented in accordance with Canadian generally accepted accounting principles.

In performing a review the Certified General Accountant would acquire sufficient knowledge of the client's business to make informed enquiries and assessment of the information obtained. The review would include enquiries

concerning all relevant information, comparisons of financial data for the current and prior periods and discussion governing the information received. In addition, the financial statements are critiqued with the responsible and appropriate level of management.

If, after reviewing the financial statements, the accountant is satisfied that the financial statements are in accordance with Canadian generally accepted accounting principles, a review engagement report would be attached to the financial statements.

A standard sample review engagement report would appear as follows:

### Review Engagement Report

To the Shareholders of name of entity or person that signed the engagement letter and address

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

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

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.

(signed) \_\_\_\_\_  
Certified General Accountant

City \_\_\_\_\_

Date \_\_\_\_\_

## COMPILATION ENGAGEMENTS

The objective of a compilation engagement is to compile financial information into financial statement format based on financial information supplied by the client. It is not necessary to adhere to Canadian generally accepted accounting principles.

A Notice to Reader communication, which is stamped or printed on each page or attached to the financial information, is a clear warning as to the limited use of the compilation engagement. If the Notice to Reader communication is not stamped or printed on each page of the financial statements, then each page of the financial information or statements should identify the nature of the engagement by carrying the following reference: "Unaudited - See Notice to Reader."

A compilation engagement is appropriate only where the client and other users do not need financial information that:

- conforms in all respects to Canadian generally accepted accounting principles,
- audit or review assurance is not required, and
- all users of the information understand and accept its limitations.

A compilation may be applicable when management does not require information derived from the entity's financial statements to assist in informed decision making.

It is important to note that Certified General Accountants must not be associated with financial statements which they know, or have reason to believe, are false or misleading.

A standard sample communication would appear as follows:

### Notice to Reader

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. I have not audited, reviewed, or otherwise attempted to verify the accuracy or completeness of such information. Readers are cautioned that these statements may not be appropriate for their purposes.

(signed) \_\_\_\_\_  
Certified General Accountant

City \_\_\_\_\_

Date \_\_\_\_\_

## PROFESSIONALS YOU CAN TRUST

The Certified General Accountants Association of British Columbia is B.C.'s largest accounting Association. Founded in 1951, the Association represents more than 12,000 CGAs and CGA students. Under provincial legislation, CGAs have full rights to audit reporting companies, the highest professional authority granted to any accounting body.

As a self-regulating professional body, one of CGA-BC's prime roles is to regulate its members and protect the public interest. To meet this goal, CGA members are obliged to adhere to a comprehensive code of ethics and professional conduct. CGAs must also undergo a strict program of professional development and continuing education to maintain their professional certification. In addition, members in public practice must undergo an additional mandatory practice review every three years to ensure that they are in compliance with recognized standards of performance. The practice review process is an integral component in maintaining the integrity and high standing CGAs enjoy in B.C.

### A HIGHER STANDARD

Prior to certification as a CGA, our students undergo a rigorous and comprehensive education. The program provides the highest standard in leading edge financial management competencies, advanced computer integration and independent learning support. And all CGAs are now required to have a university degree prior to earning their certification.

### MORE THAN JUST TAXES

CGAs offer more than just advice on income and business taxes and making your numbers balance at the end of each month. CGAs are business advisors who are equipped to help you make your business successful. They can assist you with a wide range of activities: starting a business, strategic planning, business valuation, information systems design and management, risk assessment and insurance planning, problem analysis and profitability improvement, and much more.





**Find out how a Certified General Accountant  
can boost your bottom line.**

**Use our free Find a CGA referral service.**

**Call (604) 732-1211 or (800) 565-1211  
or visit our Website at [www.cga-bc.org](http://www.cga-bc.org)**