

**Pension plan financial statements filed with the Régie des rentes du Québec (RRQ) –
Independent auditor's report – Modified opinion**

- The financial statements are for the year ended December 31, 2010.
- The financial reporting framework is prescribed by law or regulation. This material requires the financial statements to be prepared in accordance with Canadian generally accepted accounting principles (GAAP), i.e. in accordance with the pre-changeover accounting standards in *CICA¹ Handbook – Accounting*, Part V. The financial reporting framework is prescribed as follows:
 - Section 161 of the *Supplemental Pension Plans Act* requires the pension committee to have a financial report prepared² containing a statement of the plan's assets and a statement of revenues and expenditures for the fiscal year just ended.
 - The 2010 Annual Information Return Guide defines the term financial report and indicates that it must be prepared in accordance with Canadian generally accepted accounting principles.
 - In a notice issued in February 2011, the Régie stated that:
 - it requires financial statements for plans (not for funds);
 - the statements must be general purpose and prepared in accordance with Canadian GAAP.
- Plan administrators chose to exclude pension obligations and related information from the pension plan's financial statements, considering that the RRQ is tolerant in this regard. This leniency is mentioned in the 2010 Annual Information Return Guide and in the February 2011 notice. This departure from the requirements of "Pension Plans," Section 4100, of the *CICA Handbook – Accounting*, is a misstatement according to CAS³ 450, "Evaluation of Misstatements Identified during the Audit." This is the only departure from Canadian generally accepted accounting principles identified by the auditor.
- The auditor concludes that this misstatement has a significant and pervasive effect on the pension plan's financial statements. The auditor determines that the effect of the misstatement is pervasive, according to the definition provided in paragraph 5 of CAS 705, "Modifications to the Opinion in the Independent Auditor's Report," because it is fundamental to users' understanding of the pension plan's financial statements. Accordingly, and as required under CAS 705, paragraph 8, the auditor expresses an adverse opinion on the pension plan's financial statements.
- The auditor's report refers to the current period only.
- The audit is conducted in accordance with Canadian Auditing Standards.

¹ Canadian Institute of Chartered Accountants

² The terms "financial report" and "financial statements" are intended as synonyms, since they are used as such in the documents referred to here.

³ Canadian Auditing Standards

1. Under the circumstances described above, according to CAS 705, paragraph 19, the auditor must also:
 - discuss the non-disclosure with those charged with governance;
 - describe in the basis for modification paragraph the nature of the omitted information; and
 - determine if it is practicable to include the omitted disclosures in the basis for modification paragraph. If the auditor concludes that it is not practicable because the disclosures have not been prepared by management (other reasons could lead the auditor to reach such a conclusion, see CAS 705, paragraph A19), then the omitted disclosures are not included in the auditor's report.
2. As mentioned in CAS 705, paragraph 15, when the auditor expresses an adverse opinion on the financial statements as a whole in the auditor's report, the same report shall not include an unmodified opinion with respect to the same financial reporting framework on a single financial statement (for example, the statement of changes in net assets available for benefits) or on one or more specific elements, accounts or items of a financial statement.
3. CAS 705, paragraph 21 applies to this situation. Even if the auditor has expressed an adverse opinion on the financial statements, the auditor must specify in the basis for modification paragraph the reasons for any other matters arising during the engagement that would have also required a modification of the opinion (for example, a material misstatement in the financial statements other than the one mentioned above).
4. When a pension plan early adopts the accounting standards for pension plans in *CICA Handbook – Accounting*, Part IV, the auditor may have to consider other matters in his analysis and modify the report accordingly.

INDEPENDENT AUDITOR'S REPORT

To the members of the pension committee or the administrators of ABC Pension Plan

We have audited the accompanying financial statements of ABC Pension Plan, which comprise the statement of net assets available for benefits as at December 31, 2010, and the statement of changes in net assets available for benefits 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 Canadian generally accepted accounting principles, 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 adverse audit opinion.

Basis for Adverse Opinion

As explained in Note X, the financial statements do not include information with respect to pension obligations and related disclosures. According to Canadian generally accepted accounting principles, these disclosures must be included in the pension plan's financial statements. It is not possible to include in this paragraph the information omitted from the financial statements because these disclosures have not been prepared by management.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion paragraph, the financial statements do not present fairly the financial position of ABC Pension Plan as at December 31, 20X1, and the changes in its net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

[Auditor's signature] ¹

[Date of the auditor's report]

[Auditor's address]

1 Chartered accountant auditor permit No. XXXX