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AC Insights

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AC Insights provides audit committee members with a summary of financial reporting developments for public companies using IFRS, how those developments might affect your company and things you may want to think about when reviewing financial reports.

In this edition

After 20 years of thought, research, discussion and consultation, the IASB issued its standard for insurance contracts. This new standard provides consistent models for accounting and reporting insurance contracts in financial statements of companies that issue insurance contracts. In this edition, we provide an overview of these new models.

The Interpretations Committee also issued its interpretation of accounting for income tax uncertainties. This consensus is expected to reduce diversity in dealing with uncertain tax positions.

A new look and expanded content for the auditor's report will come into effect in 2018. The new Canadian auditor's report does not mandate reporting of Key Audit Matters. However, the PCAOB report, if approved by the SEC, will require auditors to report Critical Auditing Matters. In this edition we explain the changes that have been adopted for both the Canadian and the PCAOB auditor's reports and provide a preview of the Canadian auditor's report and an example of what might be disclosed in Key Audit Matters.

During the most recent quarter, there were no CSA developments. The SEC will be implementing procedures to expand non-public reviews of registration statements to all IPOs and offerings of new classes of securities, subject to providing sufficient timing for the public to evaluate those offerings. This change is expected to facilitate security offerings without the glare of the public until the offerings are ready to go to market.

Contents

IFRS developments

Fundamental changes for insurance contracts

After 20 years of development, in May 2017, the IASB issued IFRS 17: *Insurance contracts*. IFRS 17 replaces IFRS 4: *Insurance Contracts*, which was issued in 2005. IFRS 4 allowed the use of a variety of methods for accounting for insurance contracts largely based on the national GAAPs in place when a company first adopted IFRSs.

IFRS 17 is a standard for insurance contracts. It is a comprehensive principles-based standard and is expected to result in more useful and comparative financial reporting by insurers. The financial and operational implications of IFRS 17 will vary by entity; however, it will represent a fundamental change in most insurers' accounting practices and may present challenges for some insurers.

The IASB has provided some relief for insurance companies from applying the final version of IFRS 9: *Financial instruments* for the accounting for investments, which was effective for years beginning on or after January 1, 2018. Upon adoption of IFRS 17, insurance companies will also have to adopt IFRS 9 in its entirety.

Who must apply IFRS 17?

IFRS 17 will apply to all companies that issue insurance contracts, such as casualty, credit, health, liability, life, property, reinsurance, travel, and workers' compensation insurance. Certain financial guarantees and instruments with discretionary participation features will also be included if the company also issues insurance contracts. In addition, reinsurance contracts held by a company are covered by IFRS 17. Similar to IFRS 4, there are some scope exceptions for product warranties issued to customers, some financial guarantee contracts, and some fixed-fee service contracts.

What has changed?

Under IFRS 17, insurance liabilities will be measured using current estimates and assumptions. Three approaches are included in IFRS 17 for accounting for all insurance contracts: the general model based on the Building Blocks Approach (BBA), the premium allocation approach (PAA), and the variable fee approach (VFA). The general model is the default model for all insurance contracts. We will cover the general model in this article and outline the key features of the two other models.

Unbundling components

IFRS 17 requires certain insurance and non-insurance components in an insurance contract to be unbundled. The following non-insurance components will be separately accounted for under other IFRSs as follows:

- Embedded derivatives meeting certain specific criteria will be subject to IFRS 9: *Financial instruments*;
- Investment components, if they are distinct, will be accounted for under IFRS 9; and
- Distinct non-insurance goods and services will be covered by IFRS 15: *Revenue from contracts with customers*.

Grouping contracts

Insurance contracts will be grouped for accounting purposes. Grouping starts with a portfolio of contracts that have similar risks and are managed together, such as a product line. The portfolio of contracts must be further disaggregated by separating contracts (a) that are onerous on origination; (b) that have no possibility of becoming onerous after origination; and (c) all remaining contracts, if any.

The approach for grouping (top-down or bottom-up) will depend on the facts and circumstances. Companies may disaggregate groups into further groups based on internal reporting. Contracts within a group will be limited by vintage as the standard prohibits grouping contracts issued more than one year apart. Onerous contracts may be accounted for individually or as a group.

General model (BBA)

The general model would be used to account for traditional individual life, annuity, certain universal life, individual disability, and certain general property and causality contracts. Reinsurance contracts issued are also subject to this model.

The building blocks

The insurance liability for the remaining coverage under the general model is based on four building blocks as illustrated below.

Fulfillment Cash Flows (FCF)	**Estimated future cash flows**	Includes estimated premiums, acquisitions costs, benefits, claims and expenses. Estimates are to be unbiased, reflect the probability weighted mean of possible outcomes, be consistent with market observable prices, and be based on conditions at the measurement date.
Fulfillment Cash Flows (FCF)	**Risk adjustment**	Compensation required for bearing insurance risks. This is an entity specific measure of the risks of the contract, taking into account the company's diversification and risk profile.
Fulfillment Cash Flows (FCF)	**Time value of money adjustment**	Cash flows discounted using a rate based on market-consistent rates, reflecting the characteristics of the cash flows and the liquidity characteristics of the insurance contracts.
	Contract service margin (CSM)	The overall profit expected on the insurance contracts, calculated at inception as the amount that reduces the total insurance liability to nil. If the margin is negative, the negative amount is recognized in P&L immediately (except for a negative margin on reinsurance contracts held). The CSM is recognized as insurance revenue in P&L over life of the contracts based on the coverage provided.

IFRS 17 also incorporates certain general recognition principles:

- There are no day-one gains recognized at the start of insurance coverage. This approach is consistent with IFRS 15: *Revenue from contracts with customers.*

- Losses on onerous contracts, contracts that are loss making at inception, are recognized immediately, consistent with IAS 37: *Provisions, contingent liabilities, and contingent assets.*

Updating estimates and assumptions

Subsequent to initial measurement, the liability for insurance contracts is the sum of the liability for remaining coverage and the liability for incurred claims. The liability for remaining coverage consists of the FCF for future services plus CSM, while the liability for incurred claims is the FCF for past services.

The general model is a current value model, which requires the components of FCF to be updated at each reporting period. The resulting changes in the insurance liability are dealt with differently depending on whether they relate to past, current or future coverage. The table below shows the treatment of the various changes.

	Past services	Current services	Future services
Changes in estimated future cash flows and risk adjustment	Insurance service expenses (e.g., adjustments to incurred claims)	Insurance service expenses (e.g., experience gains or losses and release of risk adjustment)	Adjust CSM to spread over future periods (e.g., experience adjustments affecting future services, risk adjustments, etc.)
Onerous contracts	Losses and reversal of losses included in insurance service expenses in current period		
Unwinding discount at historical rate	Include in insurance finance income or expense		
Change in discount rate	Included in either (a) insurance finance income or expense, or (b) other comprehensive income until the contracts are derecognized, at which time the net amount in OCI is released to P&L. This is an accounting policy choice.		
Release of CSM	Include in insurance services revenue over the life of the insurance contract based on coverage units.		

Premium Allocation Approach

The PAA is an optional simplified method, which can be applied when the duration of the contract is one year or less or the approach would produce a measurement of the insurance liability that is not materially different from the outcome under the general model. The PAA will generally apply to property and causality contracts, and short-term life, health and other group contracts.

Under the PAA, the insurance liability for remaining coverage of contracts without an investment component is based on the actual premiums received and cash outflows made for acquisition costs and investment payments. The liability is adjusted for the amortization of acquisition cash flows and revenue recognized. Revenue is recognized either on a straight-line basis over the term of the contracts, or the expected timing of incurred claims and benefits.

The liability for incurred claims under the PAA are measured using the FCF principles under the general model, except discounting is not required if cash flows related to claims are expected to be paid or received in one year or less.

Variable Fee Approach

The VFA is an adaption of the BBA specifically for contracts with direct participation features in which the policyholder participates in a clearly identified pool of assets, the entity expects to pay a substantial share of the return from those assets to the policyholder, and the cash flows are expected to vary based on the underlying assets. Contracts that generally would qualify are certain unit- and index-linked universal life, segregated fund guarantee, and certain other participating contracts.

The changes in the fair value of financial instruments underlying contracts with direct participation features are generally allocated to the policyholder, with a portion allocated to the insurer as a variable fee. Under the VFA, the fair value changes allocated to the policyholder are included in the FCF. The fair value changes allocated to the insurer (i.e., the variable fee) will be included in CSM along with any fixed fees. The CSM will be updated for changes in the variable fee and other changes in the fulfillment cash flows resulting from discounting and financial risks and non-financial risks. There will be certain presentation options if the entity holds the underlying assets.

Insurance revenue reflects coverage provided

Under IFRS 17, revenue will be based on the earned revenue concept and recognized as the coverage is provided over the duration of the insurance contract. Gross premiums received will no longer be included in income when received; however, will be reported in disclosures.

Insurance revenue will also exclude deposits received from policyholders for investment. Only fees for investment services will be recognized as revenue. Similarly, deposit repayments are no longer shown as insurance expenses, but rather as settlements of liabilities.

Insurance performance statement shows key drivers

The P&L will reflect income from two different activities – the provision of insurance services and the net returns from investment and financing activities.

The insurance service reflects the changes in the insurance liability, consisting of insurance revenue and insurance service expenses. Insurance service expenses include incurred claims, insurance contracts expenses, losses on onerous contracts (net of any reversals), insurance contract acquisition costs, and the gain or loss from reinsurance.

The net financial results will consist of investment income and insurance finance expenses (i.e., resulting from discounting the insurance liability).

Extensive disclosure

IFRS 17 requires extensive disclosures about the amounts recognized in the financial statements and the nature and extent of risks arising from insurance contracts. Some of these disclosures were imported from IFRS 4. The disclosures will be more granular to help users of the financial statements understand the effects of insurance contracts on the entity's financial position, financial performance and cash flows. New disclosures are required about expected profitability and the attributes of new business.

What does it mean?

IFRS 17 is expected to enhance comparability for financial reporting, as all insurers using IFRS 17 will be using the same principles. It will have a significant impact on some insurers. US insurance companies will continue to follow US GAAP. The FASB is currently updating US GAAP for long duration contracts. The FASB project is targeting improvements to the US model by having assumptions used to measure insurance liabilities updated periodically, simplifying some measurements, and enhancing disclosures. There will be some convergence in principles, but US GAAP will not be the same as IFRS 17.

The requirement to measure insurance liabilities using current estimates and assumptions is expected to provide a more relevant measure of the insurer's obligations and reveal financial risks and economic mismatches. However, the current value approach may increase the volatility in earnings and equity.

Recognizing revenue on an earned basis rather than upon receipt of premiums may affect the revenue and profitability patterns for some companies. The level of transparency about key drivers of results will be increased through presentation within the P&L.

When is IFRS 17 effective?

IFRS 17 must be first applied for years beginning on or after January 1, 2021. Comparative figures are required. Earlier adoption is permitted provided the entity also adopts IFRS 9 and IFRS 15 on or before it applies IFRS 17.

A full retrospective application is required on first applying IFRS 17 unless it is impracticable to do so. If impracticable, a modified retrospective or fair value approach may be used. Modified retrospective is a best efforts approach at applying the standard retrospectively, including use of hindsight if necessary. The fair value transition approach would require the CSM to be determined as the difference between the fair value of insurance contracts and the FCF.

What should you be doing now?

The application of IFRS 17 is complex and may have a significant impact on a company's data collection and analysis, systems, process and internal controls. The people responsible for preparing financial statements may need additional training and more resources to meet the challenges of implementation. Companies will have to consider policy choices and options, and how to transition in 2021.

The implementation of IFRS 17 goes beyond the accounting and financial reporting requirements. IFRS 17 will affect various aspects of the business such as product design, incentive and compensation plans, business planning, compliance with capital requirements, regulatory compliance, and tax profiles. Investors and analysts will have to be educated on the implications of the new standard and changes to the company's key metrics.

It will be important to have a roadmap with milestones and the resources required to have a successful implementation. If your company needs some help, ask your PwC representative as to how we can help.

Need more information

PwC will be hosting events and producing publications to help with the implementation of IFRS 17. If you want to participate or receive publications, please let your PwC representative know about your interest.

Tax uncertainties addressed

IFRIC 23: *Uncertainty over income tax treatments* was issued in June 2017 to clarify the accounting for uncertainties in income taxes. The Interpretations Committee issued this interpretation to IAS 12: *Income taxes to* clarify the accounting for income tax positions taken by a company that have not yet been accepted by tax authorities.

The IFRIC sets out the following steps for addressing tax uncertainties:

1. Unit of account – determine whether each tax uncertainty should be considered separately or together with one or more other tax uncertainties. The approach selected should give the best prediction of the outcome. Factors to consider include how the company supports the tax position taken or the approach it expects tax authorities to take on examination of the tax position.
2. Assessment of outcome – assess whether it is probable that the tax authorities will accept the tax treatment used or planned to be used. This assessment assumes that the tax authorities will examine the position(s) and have full knowledge of the relevant information when making such examinations. Companies cannot consider detection risk. This assessment will require the application of judgment and may require disclosures of the judgments made and any measurement uncertainty.
3. Accounting – account for the tax positions based on the assessment:
    a. Acceptance of position probable – the tax treatment to be used or planned to be used in the tax filings is applied in determining the tax accounting for current and deferred income taxes.
    b. Acceptance of position not probable – an estimate of the uncertainty should be included in current and deferred income taxes measured using a method that best predicts the resolution of the uncertainty, using either:
        i. The most likely amount, which might be appropriate if the possible outcomes are binary or concentrated on one amount; or
        ii. The expected value if there is a range of possible outcomes.

The judgments and estimates made will need to be reassessed if there is a change in facts or circumstances or new information becomes available. New information might include actions by tax authorities, positions by tax authorities taken on a particular situation that is similar to the company's situation, or the expiry of tax assessment periods. If there is a change in judgment or estimate, the change is reflected as a change in estimate in the period of the change.

The IFRIC does not address interest and penalties related to uncertain tax positions.

The interpretation is effective for annual periods beginning on or after January 1, 2019 and may be adopted earlier. The interpretation can be applied using the full retrospective method with comparative restatement, if it can be applied without hindsight, or the modified prospective basis (with no comparative restatement) using a cumulative catch up adjustment to opening equity.

Companies will have to assess whether their current models for assessing tax uncertainties are consistent with IFRIC 23 and make the necessary changes on the effective date.

IFRIC 23 differs from US GAAP in several respects.

SEC developments

Expansion for non-public reviews

On June 29, 2017, the SEC announced that it would allow companies in addition to Emerging Growth Companies to voluntarily submit draft registration statements for non-public review. These non-public reviews are consistent with the provisions of the Jumpstart Our Business Startups (JOBS) Act. The intention is to facilitate capital formation. These process revisions come into effect on July 10, 2017.

Submissions of registration statements and related revisions for non-public reviews will be accepted for the following:

- An initial public offering if the registrant confirms it will publicly file its registration statement at least 15 days prior to any road show, or if no road show is planned, at least 15 days prior to the requested effective date of the registration statement.

- Subsequent offerings within 12 months of the effective date of the IPO registration statement if the registrant confirms it will publicly file its registration statement so it is available on EDGAR at least 48 hours prior to any required effective time and date. In this case, the initial submission will be subject to non-public review, but further reviews will be subject to normal procedures.

- An offering of a new class of securities under the Exchange Act if the registrant confirms that it will publicly file its registration statement at least 15 days prior to the anticipated effective date of the registration statement for its listing on a national securities exchange.

Foreign private issuers may use these provisions as well as those available for Emerging Growth Companies. The SEC has traditionally accepted submissions for non-public review of initial registration statements of foreign private issuers.

These provisions are expected to provide companies with more flexibility in planning their offerings and reduce the exposure to market fluctuations that can adversely affect the offering process and harm existing shareholders. The conditions placed on the use of the non-public review also ensure the public has an opportunity to evaluate the offerings.

Auditing developments

New look and content for auditor's report in 2018

In April 2017, the Canadian Auditing and Assurance Standards Board (CAASB) approved a suite of new and amended Canadian auditing standards dealing with auditor performance and reporting. Conforming amendments were made to other standards. These new and amended standards were issued in June 2017. The list of standards issued, amended or conformed can be found in Appendix C to this edition of *AC Insights*.

The changes in the auditor's report are designed to make the auditor's report more informative and relevant and are primarily based on changes made to International Standards on Auditing (ISAs) issued in 2015.

While it is customary for the CAASB to adopt ISAs with minor changes for the Canadian environment, the current suite holds back on the requirement for listed entities to report key audit matters (KAM). Communicating KAM is a significant component of ISAs for reporting on audits of listed companies. The reasons for not requiring the reporting of KAM in auditor's reports for listed companies in Canada were concerns that the PCAOB would not have a similar requirement when their new reporting standard was finally issued and concerns over the impact on smaller issuers. A message from Darrell Jensen, Chair of the CAASB, stated that a difference in reporting requirements "could create confusion in the marketplace and potentially affect comparability of information across North American markets".

Instead of requiring KAM to be reported in auditor's reports for listed companies, the CAASB approved a standard on reporting KAM, which would be used if the entity engages the auditor to voluntarily report KAM, or the reporting of KAM is required by legislation or regulation.

On June 1, 2017, the PCAOB approved its new auditor's reporting standards, which will require the reporting of Critical Audit Matters (CAM) in PCAOB audit reports submitted by most SEC registrants. Foreign private issuers, except for emerging growth companies, required to submit PCAOB audit reports will be required to comply. For more information on these changes introduced by the PCAOB, read our article on these changes in this edition of *AC Insights*.

The CAASB indicated that they would continue to monitor developments in the US and the implementation in other countries such as Australia, which has many smaller issuers, in considering the inclusion of KAM reporting.

What has changed?

The suite of CASs introduces several changes to both auditor's reports and performance requirements for audits of financial statements.

Auditor's reporting standard

The key changes affecting the auditor's report for listed companies are:

- The opinion section being presented first in the auditor's report, followed by the basis of the opinion.
- Enhanced reporting on going concern, including:
  - Disclosure of the responsibilities of management and the auditor for going concern assessments and disclosures; and
  - A new section in the auditor's report drawing attention to a going concern issue when a material uncertainty about going concern exists and the uncertainty has been adequately disclosed in the financial statements.

- The requirement for an explicit statement in the auditor's report about the auditor's independence and compliance with the applicable ethical standards.
- An enhanced description in the auditor's report or an appendix to the auditor's report of the auditor's responsibilities and key features of an audit of financial statements.
- A separate section in the auditor's report to explain management's and the auditor's responsibilities for other information when the financial statements and auditor's report are included in, incorporated by reference in, or accompanies an annual report, and the auditor's conclusions on the work performed on this other information including Management's Discussion and Analysis, the annual report to shareholders, or other similar reports. It does not include announcements of financial results or securities offering documents. Other information is financial or non-financial information, other than the financial statements and the auditor's report thereon.
- Disclosure of the name of the audit engagement partner in the auditor's report.

An example of the new Canadian auditor's report is included in Appendix A to this edition of *AC Insights*.

Auditor's performance standards

In conjunction with the new guidance on the auditor's report, several CASs were amended to enhance the auditor's performance requirements. The key changes include:

- Strengthening CASs requiring the auditor to address disclosures in the financial statements. The guidance on the auditor's work in this area have been augmented to assist in assessing disclosures.
- Enhancing the requirements for the auditor to challenge the adequacy of disclosures for close calls when events or conditions are identified that may cast significant doubt on a company's ability to continue as a going concern.
- Clarifying the auditor's work effort related to other information accompanying the annual financial statements and auditor's report.

Reporting key audit matters

CAS 701: *Communicating Key Audit Matters in the Independent Auditor's Report* is new guidance that would apply if an auditor, as part of the audit of a company's financial statements, is engaged to communicate KAM in the auditor's report or is required by law or regulation to communicate KAM in the auditor's report.

KAM are matters, which in the auditor's professional judgment, were of most significance during the current period audit of the financial statements. KAM are selected from matters reported to those charged with governance that required significant auditor attention. The selection of KAM would consider those areas of higher assessed risk of material misstatement, significant risks, significant auditor judgments related to areas in the financial statements involving significant management judgment (e.g., accounting estimates having high estimation uncertainty), and the effect on the audit of significant events or transactions that occurred during the period.

The section for KAM would be placed in the auditor's report after the section on material uncertainty for going concern. The KAM section may be placed before or after other matters of emphasis.

The auditor is required to describe the KAM in the auditor's report including:

- The issue – why the matter was considered a KAM;
- The audit response – how the auditor addressed the matter in the audit; and
- The financial statement disclosure – where disclosures were made about the issue, if any.

If there were no KAM identified in the audit, the auditor would state this fact in the auditor's report. In Appendix B to this edition of *AC Insights*, we have provided an example adapted from an actual auditor's report.

When are the changes applicable?

The changes in auditor reporting and the related performance requirements will be applicable to audits for years ending after December 15, 2018.

PCAOB auditor's report

On June 1, 2017, the PCAOB adopted a new standard to enhance the auditor's report. AS 3101: *The Auditor's Report on an Audit of Financial Statements when the Auditor Expresses an Unqualified Opinion* will communicate critical audit matters and disclose the tenure of the auditors. Conforming and related amendments were also made to other standards.

The objective of the new auditor's report is to make the auditor's report more relevant for investors by requiring the auditor to communicate more information about the audit. The key piece of new information is Critical Audit Matters (CAM), which will be included in all PCAOB auditor's reports on audits of all SEC registrants except for emerging growth companies. Certain Canadian issuers are not required to submit PCAOB auditor's reports and may continue to use the Canadian auditor's reports.

In addition, auditors will be required to disclose the length of their tenure and clarify their role and responsibilities.

Critical Audit Matters

CAM are any matters arising from the audit of the financial statements communicated, or required to be communicated, to the audit committee and that:

- Relate to accounts or disclosures that are material to the financial statements; and
- Involve especially challenging, subjective, or complex auditor judgment.

In determining CAM, the auditor will be required to take into account specific factors such as:

- the auditor's risk assessment;
- areas in the financial statements that involved the application of significant judgment or estimation by management, including estimates with significant measurement uncertainty;
- significant unusual transactions;
- degree of subjectivity in applying audit procedures in addressing a matter or in evaluating the results of procedures;
- the nature and extent of audit effort, including the use of specialized skill or knowledge; and
- the nature of audit evidence necessary to address the matter.

The auditor's report will be required to (1) identify the CAM; (2) describe the principal considerations that led the auditor to determine the matter is a CAM; (3) describe how it was addressed in the audit; and refer to the relevant financial statement accounts and disclosures. If the auditor determines there are no CAM, the auditor must state so in the auditor's report.

Subject to approval by the SEC, provisions related to CAM will take effect for audits for fiscal years ending on or after June 30, 2019 for large accelerated filers; and for audits for fiscal years ending on or after December 15, 2020 for all other companies to which the requirements apply.

Other changes

The auditor's report will be required to include a statement disclosing the year in which the auditor began serving consecutively as the company's auditor ("auditor tenure").

Other changes to existing requirements are intended to clarify the auditor's role and responsibilities and make the auditor's report easier to read. These requirements include:

- addressing the auditor's report to the company's shareholders and the board of directors;
- standardizing the language in and reformatting the auditor's report;
- disclosing that the auditor is required to be independent; and
- adding the phrase "whether due to error or fraud" when describing the auditor's

responsibilities under PCAOB standards to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The other changes to the auditor's report will take effect for audits for fiscal years ending on or after December 15, 2017.

Comparison to CAS

The PCAOB changes to the description of management's and auditor's responsibilities are not as comprehensive as those being made to the Canadian auditor's report. In addition, the requirements related to Other Information do not form part of the PCAOB auditor's report.

There is no requirement to disclose the name of the engagement partner in the PCAOB auditor's report; however, the PCAOB does have a requirement that the name of the engagement partner be reported and included in a PCAOB database available to the public. The new PCAOB rule does permit the auditor to include this information in the auditor's report as well as in the database.

The requirements for going concern and other matters of emphasis have been a part of the PCAOB standards before these changes and are not being modified.

Appendix A

Illustrative example of Canadian Auditor's Report

We have included the following example of an unmodified auditor's report that will be issued in 2018 for audits of public companies. The example includes:

- The new format with additional description of the auditor's and management responsibilities.
- The paragraph required when uncertainty exists about going concern and appropriate disclosures have been made in the financial statements.
- An emphasis of matter to draw attention to a matter of such importance that it is fundamental to the user's understanding of the financial statements. Matters of emphasis may be included if the auditor amends the original auditor's report on the financial statements, there is an uncertainty about the outcome of exceptional litigation or regulatory action, a significant subsequent event has occurred after the date of the financial statements and before the date of the auditor's report, or a major catastrophe has had, or continues to have, a significant effect on the company's financial position. This example includes a material litigation claim against the company infringement on technology fundamental to the company's operations.
- The paragraph required when the financial statements and the auditor's report accompanies, is included in, or incorporated by reference in another document.

The example does not show an Other Matter, which may be reported when (a) law or regulation requires a further explanation of the auditor's responsibilities; (b) there are significant risks to the audit that are not key audit matters; (c) the auditor reports on more than one set of financial statements; or (d) the prior year's financial statements were audited by other auditors.

The example does not cover any reporting on internal controls that may be done at the time of the audit to meet SEC requirements for an attestation report on internal controls.

The report as shown is based on the style used by other PwC firms applying the International Standards of Auditing. PwC Canada's style of reporting will be finalized during the year and the style may differ from this example.

Independent Auditor's Report

To the shareholders of Public Company Limited

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance

Opinion and scope paragraph placed at beginning of report. No significant change in content.

and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

What we have audited

We have audited the consolidated financial statements of Public Company Limited (the Company), which comprise the consolidated statement of financial position as at December 31, 2018 and December 31, 2017, and the consolidated statements of net income, comprehensive income changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

Basis of our opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

May refer to other GAAS applied if no conflict with CAS.

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

Explicit reference to independence and compliance with ethical standards.

Independence

We are independent of the Company in accordance with ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with those requirements.

Material uncertainty related to going concern

We draw attention to Note 1 in the consolidated financial statements, which indicated the Company incurred a net loss of $10 million during the year ended December 31, 2018; as of that date, the Company's current liabilities exceeded its total assets by $8 million; and as of that date, the Company is not in compliance with significant covenants related to its debt obligations. As stated in Note 1, these events and conditions, along with other matters set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

When a material uncertainty about going concern exists and the Company's disclosures are adequate, an emphasis paragraph is placed up front referring to Company's disclosures.

Emphasis of matter

In certain limited circumstances, the auditor may draw attention to other important matters in the financial statements.

We draw attention to Note 15 in the consolidated financial statements, which describes litigation against the Company related to infringement of patents for its Unit A technology.

Our opinion is not modified in respect of this matter.

Other information

Management is responsible for other information. The other information comprises Management's Discussion and Analysis for the year ended December 31, 2018, which we obtained prior to the date of our auditor's report, and the Annual Report to shareholders (but does not include the consolidated financial statements and our auditor's report thereon included in the Annual Report), which is expected to be made available to us after that date.

When the financial statements and auditor's report are included in or accompany another document, the report explains management's and the auditor's responsibilities, the work the auditor has completed and expects to complete, and the auditor's findings.

Our opinion on the consolidated financial statements does not cover other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual Report to shareholders, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and the audit committee (i.e., those charged with governance) for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or cease operations, or has no realistic alternative but to do so.

Discussion of management's responsibilities expanded to cover management's responsibility for assessing the company's ability to continue as a going concern and related disclosures when there is an uncertainty about the ability of the entity to continue as a going concern.

Identifies the group responsible for oversight of the financial reporting process.

The Company's Audit Committee is responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Describes objectives and level of assurance of an audit.

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

This list of items below, including the paragraphs on communications with those in charge of governance, may be included in an appendix to the auditor's report or incorporated by reference from a regulatory website.

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures response to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Clarifies misstatement risk related to fraud.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained to the date of the auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Description of auditor's responsibility for assessing management's assessment of the continued use of the going concern principle.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Expands description of responsibilities for presentations and disclosures.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Outlines auditor's responsibility for and ownership of the group audit and the consolidated financial statements.

Outlines the auditor's communication with those charged with governance, including independence requirements.

We communicate with the Audit Committee of the Board of Directors regarding, among other matters, the planned scope and the timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Disclosure of name of engagement partners.

The engagement partner on the audit resulting in this independent auditor's report is Perry W. Cooper.

PricewaterhouseCoopers LLP

123 Any Street
Anycity, Ontario
March 15, 2019

Appendix B

Illustrative example of key audit matters disclosed in an auditor's report

We have included the following example of a section for Key Audit Matters that would be included in an auditor's report, which would appear after the sections on Matters of Emphasis. The example includes two KAM; however, the number of KAM that might be included may vary from none to seven. The KAM included in this illustrative example are adapted from actual KAM reported by PwC firms in Europe and Australia for other companies. Similar disclosure would be required for Critical Audit Matters reported using the PCAOB auditor's report. The formatting of the KAM section may vary by auditor.

Our key audit matters assessment

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our key audit matters

Goodwill and intangible assets impairment assessment

Key audit matter

The Company has significant amounts of goodwill and intangible assets at December 31, 2018, as disclosed in Note 7 to the consolidated financial statements.

During the year ended December 31, 2018, the Company recorded a goodwill impairment loss of $10.1 million.

How our audit addressed the key audit matter

Our audit procedures included assessing the Company's impairment model. We monitored the process of identifying impairment indicators and the process for impairment testing at the cash generating unit level.

In addition, we obtained impairment tests prepared by management and evaluated the reasonableness of estimates and judgments made by management in preparing these tests.

We focused on this area because of the amount of the goodwill and intangible assets, the existence of indicators of potential impairment, and because the assessment of whether an impairment loss is necessary involves significant estimates and judgments by management including:

- Estimates of future cash flows and key assumptions based on management's expectations;
- Long-term growth rates; and
- Discount rates applied to discount future cash flows.

Refer to Notes 7 and 12 in the consolidated financial statements.

We challenged management on the suitability of the impairment models and the reasonableness of the Company's key assumptions, with particular attention paid to its Unit A CGU, through performing the following:

- Benchmarking management's key assumptions with industry comparators and with assumptions made in prior years including revenue and margin growth trends, capital expenditures, changes in working capital, discount rates and long-term growth rates applied;
- Testing the mathematical accuracy of the cash flow models and agreeing relevant data to the Company's budgets approved by the Board of Directors;
- Assessed the reliability of management's forecasts through a review of actual performance against previous forecasts;
- Stress-testing the key assumptions used by analyzing the impact on results from using other reasonably possible growth rates and discount rates which were within a reasonably foreseeable range.

Furthermore, we assessed the appropriateness of disclosures in the financial statements.

Recognition of deferred tax assets and uncertain tax positions

Key audit matter

The Company has recognized deferred tax assets in the amount of $400 million on the balance sheet.

We focused on the recognition of deferred tax assets because the recognition of these assets involves judgment by management as to the likelihood of realization of the deferred tax assets, which is based on a number of factors including whether there will be sufficient taxable profits in future periods.

The Company has recognized provisions against uncertain tax positions. We focused on this area because the assessment and estimate of provisions for uncertain tax positions involves significant judgment.

Refer to Note 10 of the consolidated financial statements.

How our audit addressed this key audit matter

We evaluated the management's assessment as to whether there will be sufficient taxable profits in future periods to support the recognition of deferred tax assets by comparing the management's forecasts of future profits to historical results, and evaluating the assumptions used in those forecasts.

We discussed with management the known uncertain tax positions and read communications from taxation authorities to identify uncertain tax positions. We considered the status of current and recent tax audits, judgmental positions taken in tax returns, and developments in the tax environment. We assessed the adequacy of management's key assumptions and methods to recognize provisions for uncertain tax positions.

Appendix C

Canadian Auditing Standards amended

The following Canadian Auditing Standards were amended in April 2017:

CAS 260: *Communication with Those Charged with Governance*

CAS 570: *Going Concern*

CAS 700: *Forming an Opinion and Reporting on Financial Statements*

CAS 701: *Communicating Key Audit Matters in the Independent Auditor's Report*

CAS 705: *Modifications to the Opinion in the Independent Auditor's Report*

CAS 706: *Emphasis of Matter and Other Matter Paragraphs in an Independent Auditor's Report*

CAS 720: *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

CAS 800: *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

CAS 805: *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

CAS 810: *Engagements to Report on Summary Financial Statements*