

## CICA handbook – assurance revisions release no. 19 April 2004

### ASSURANCE RECOMMENDATIONS

#### Standards for assurance engagements, Section 5025

Amended Appendix A to adopt terminology in revised Section 7600.

#### Using the work of internal audit, paragraph 5050.05

Added a reference to Section 5135 for guidance on making enquiries of internal audit regarding fraud and error.

#### Audit of financial statements — an introduction, Section 5090 [DEC. 2004 \*]

Revises and replaces existing Section to incorporate changes resulting from revisions to Section 5135.

\* The Recommendations are effective with respect to audits of financial statements and other financial information relating to periods ending on or after December 15, 2004.

The following Recommendation formerly appeared in Section 5090:

- .08 ♦ *The auditor should plan and perform an audit with an attitude of professional scepticism, recognizing that circumstances may exist that cause the financial statements to be materially misstated.* [DEC. 2002 \*]

#### Sections 5130, 5135 and 5136

Deleted explanation that Sections 5130, 5135 and 5136 are interrelated.

#### The auditor's responsibility to consider fraud and error, Section 5135 [DEC. 2004 \*]

Revises and replaces AUDITOR'S RESPONSIBILITY TO CONSIDER FRAUD AND ERROR IN AN AUDIT OF FINANCIAL STATEMENTS, Section 5135.

\* The Recommendations are effective with respect to audits of financial statements and other financial information relating to periods ending on or after December 15, 2004.

The following Recommendations formerly appeared in Section 5135:

- .02 ♦ *When planning and performing audit procedures and evaluating and reporting the results thereof, the auditor should consider the risk of material misstatements in the financial statements resulting from fraud or error.* [DEC 2002 \*]
- .20 ♦ *In planning the audit, the auditor should discuss with other members of the audit team the susceptibility of the entity to material misstatements in the financial statements resulting from fraud or error.*<sup>4</sup> [DEC. 2002 \*]
- .22 ♦ *When planning the audit, the auditor should make enquiries of management:*

- (a) *to obtain an understanding of:*
- (i) *management's assessment of the risk that the financial statements may be materially misstated as a result of fraud; and*
- (ii) *the internal controls management has put in place to address such risk;*
- (b) *to obtain knowledge of management's understanding regarding the internal controls in place to prevent and detect error;*
- (c) *to determine whether management is aware of any known fraud that has affected the entity, or suspected fraud; and*
- (d) *to determine whether management has discovered any material errors.* [DEC. 2002 \*]

- .32 ♦ *When assessing inherent risk and control risk in accordance with MATERIALITY AND AUDIT RISK IN CONDUCTING AN AUDIT, Section 5130, and INTERNAL CONTROL IN THE CONTEXT OF AN AUDIT, Sections 5200 to 5220, the auditor should consider how the financial statements might be materially misstated as a result of fraud or error. In considering the risk of material misstatement resulting from fraud, the auditor should consider whether fraud risk factors are present that indicate the possibility of either fraudulent financial reporting or misappropriation of assets.* [DEC. 2002 \*]

- .39 ♦ *Based on the auditor's assessment of inherent and control risks (including the results of any tests of controls), the auditor should design substantive procedures to reduce to an appropriately low level the risk that misstatements resulting from fraud and error that are material to the financial statements taken as a whole will not be detected. In designing the substantive procedures, the auditor should address the fraud risk factors that the auditor has identified as being present.* [DEC. 2002 \*]

- .42 ♦ When the auditor encounters circumstances that indicate that there may be a material misstatement in the financial statements resulting from fraud or error, the auditor should perform procedures to determine whether the financial statements are materially misstated. [DEC. 2002 \*]
- .46 ♦ When the auditor identifies a misstatement, the auditor should consider whether such a misstatement may be indicative of fraud, and if there is such an indication, the auditor should consider the implications of the misstatement in relation to other aspects of the audit, particularly the reliability of management representations. [DEC. 2002 \*]
- .48 ♦ When the auditor confirms that, or is unable to conclude whether, the financial statements are materially misstated as a result of fraud or error, the auditor should consider the implications for the audit. MATERIALITY AND AUDIT RISK IN CONDUCTING AN AUDIT, paragraphs 5130.32-.41, and RESERVATIONS IN THE AUDITOR'S REPORT, Section 5510, provide guidance on the evaluation and disposition of misstatements and the effect on the auditor's report. [DEC. 2002 \*]
- .49 ♦ The auditor should document fraud risk factors identified as being present during the auditor's assessment process (see paragraph 5135.32) and document the auditor's response to any such factors (see paragraph 5135.39). If during the performance of the audit, fraud risk factors are identified that cause the auditor to believe that additional audit procedures are necessary, the auditor should document the presence of such risk factors and the auditor's response to them. [DEC. 2002 \*]
- .51 ♦ The auditor should obtain written representations from management that:
  - (a) It acknowledges its responsibility for the implementation and operation of internal controls that are designed to prevent and detect fraud and error.
  - (b) It believes the effects of those uncorrected financial statement misstatements aggregated by the auditor during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such items should be included in or attached to the written representation.
  - (c) It has disclosed to the auditor all significant facts relating to any frauds or suspected frauds known to management that may have affected the entity.
  - (d) It has disclosed to the auditor the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud. [DEC. 2002 \*]
- .56 ♦ When the auditor identifies a misstatement resulting from fraud, or a suspected fraud, or error, the auditor should consider the auditor's responsibility to communicate that information to management, the audit committee or equivalent and, in some circumstances, to regulatory and enforcement authorities. [DEC. 2002 \*]
- .59 ♦ If the auditor has identified a misstatement resulting from error, other than a trivial error, the auditor should communicate the misstatement to the appropriate level of management on a timely basis in accordance with COMMUNICATION WITH MANAGEMENT OF MATTERS IDENTIFIED DURING THE FINANCIAL STATEMENT AUDIT, Section 5750, and consider the need to report it to the audit committee or equivalent in accordance with COMMUNICATIONS WITH THOSE HAVING OVERSIGHT RESPONSIBILITY FOR THE FINANCIAL REPORTING PROCESS, Section 5751, whether or not the error has been corrected. Considerations in determining whether misstatements should be communicated to the audit committee or equivalent are described in paragraph 5135.58. [DEC. 2002 \*\*]
- .60 ♦ The auditor should inform the audit committee or equivalent of those uncorrected misstatements aggregated by the auditor during the audit that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. [DEC. 2002 \*]
- .62 ♦ If the auditor has:
  - (a) identified a fraud, whether or not it results in a material misstatement in the financial statements, or
  - (b) obtained evidence that indicates that fraud may exist (even if the potential effect on the financial statements would not be material), the auditor should communicate these matters to the appropriate level of management on a timely basis in accordance with COMMUNICATION WITH MANAGEMENT OF MATTERS IDENTIFIED DURING THE FINANCIAL STATEMENT AUDIT, Section 5750, and consider the need to report such matters to the audit committee or equivalent in accordance with COMMUNICATIONS WITH THOSE HAVING OVERSIGHT RESPONSIBILITY FOR THE FINANCIAL REPORTING PROCESS, Section 5751. Considerations in determining which matters should be communicated to the audit committee or equivalent are described in paragraph 5135.58. [DEC. 2002 \*\*]
- .69 ♦ If the auditor concludes that it is not possible to continue performing the audit as a result of a misstatement resulting from fraud or suspected fraud, the auditor should:
  - (a) consider the professional and legal responsibilities applicable in the circumstances, including whether there is a requirement for the auditor to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities;
  - (b) consider the possibility of withdrawing from the engagement; and
  - (c) if the auditor withdraws:

- (i) discuss with the appropriate level of management and the audit committee or equivalent the auditor's withdrawal from the engagement and the reasons for the withdrawal; and
    - (ii) consider whether there is a professional or legal requirement to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities, the auditor's withdrawal from the engagement and the reasons for the withdrawal. [DEC. 2002 \*]
- .73 ♦ On receipt of an enquiry from a proposed successor auditor, the existing auditor should advise whether there are any circumstances that should be taken into account that might influence the decision whether or not the proposed successor should accept the appointment. The existing auditor should refer to the relevant rules of professional conduct and any legal or regulatory requirements for guidance on this matter, including when fraud may be a factor in the change in auditors. [DEC. 2002 \*]
- Misstatements — illegal acts, Section 5136**
- Amended paragraphs 5136.01, .02, .08 and .23(d) as a result of revisions to Section 5135.
- Amended paragraphs 5136.24 and 5136.29 to remove the reference to the assumption of management's good faith, and deleted footnote 3 in paragraph 5136.27, as a result of revisions to Section 5090.
- Also amended paragraph 5136.29 to indicate that the auditor needs to consider the implications with respect to management representations when the action taken by management with respect to an illegal or possibly illegal act is not appropriate as a result of revisions to Section 5135.
- Knowledge of the entity's business, paragraph 5140.14**
- Amended as a result of revisions to Section 5135.
- Internal control in the context of an audit — understanding internal control for audit planning purposes, paragraph 5205.11**
- Amended to refer to risks of material misstatement due to fraud or error. Former wording was:
- .11 ♦ The auditor should obtain a sufficient understanding of internal control to plan the audit. Such an understanding should be used to assist in:
    - (a) identifying types of potential misstatements;
    - (b) considering factors that affect the risk of material misstatements; and
    - (c) determining the nature, extent and timing of auditing procedures. [OCT. 1992]
- Analysis, paragraph 5301.02**
- Amended to discuss the guidance in paragraphs 5135.052 and 5135.085.
- Audit of accounting estimates, paragraph 5305.01**
- Added a reference to guidance provided in paragraphs 5135.007 and 5135.079-.080.
- Communications with those having oversight responsibility for the financial reporting process, paragraph 5751.11**
- Amended as a result of revisions to Section 5135.
- Reports on the application of accounting principles, Section 7600 [MAY 1, 2004 \*]**
- Revises and replaces REPORTS ON THE APPLICATION OF ACCOUNTING PRINCIPLES, AUDITING STANDARDS OR REVIEW STANDARDS, Section 7600.
- \* The Recommendations in this Section apply to reports dated on or after May 1, 2004.
- The following Recommendations formerly appeared in Section 7600:
- .05 ♦ The reporting accountant should reach an understanding and agreement with the party engaging him or her as to the nature of the engagement, the information to be provided to the reporting accountant, the type of report to be issued and any restriction on distribution of the report. [SEPT. 1, 1992 \*]
  - .07 ♦ When providing an opinion in accordance with this Section, the reporting accountant should meet the following professional standards:
    - (a) The work should be performed and the report prepared by a person or persons having adequate technical training and proficiency in the subject matter, with due care and with an objective state of mind.
    - (b) The work should be adequately planned and properly executed. If assistants are employed, they should be properly supervised.
    - (c) Sufficient appropriate evidence should be obtained to afford a reasonable basis to support the content of the report. [SEPT. 1, 1992 \*]
  - .12 ♦ When asked to provide an opinion to an entity on a specific set of circumstances or on a transaction either completed or contemplated, the reporting accountant should:
    - (a) obtain written permission from the entity to contact its incumbent accountant. Unless the permission is obtained, the reporting accountant should not accept the engagement;

- (b) obtain from the entity a written statement of all relevant facts and assumptions, and a description of the circumstances and the nature of any relevant disagreements between the entity and its incumbent accountant or a third party; and
  - (c) contact the incumbent accountant in writing to confirm that the information provided by the entity is complete and consistent with the incumbent accountant's knowledge of the circumstances or transaction. [SEPT. 1, 1992 \*]
- .14 ♦ When asked by a third party to provide an opinion on a specific set of circumstances or on a transaction either completed or contemplated, the reporting accountant should:
- (a) obtain from the third party a written statement of all relevant facts and assumptions known to that party; and
  - (b) contact the entity and its incumbent accountant in writing to confirm that the information provided by the third party is complete and consistent with their knowledge of the circumstances or transaction. [SEPT. 1, 1992 \*]
- .17 ♦ When asked for a generic opinion, the reporting accountant should obtain a written statement of the relevant facts and assumptions from the person or organization requesting the opinion. [SEPT. 1, 1992 \*]
- .18 ♦ The reporting accountant should document matters that in his or her professional judgment are important to support the content of the report. [SEPT. 1, 1992 \*]
- .20 ♦ The reporting accountant's opinion on the application of accounting principles, auditing standards or review standards should be in writing. [SEPT. 1, 1992 \*]
- .24 ♦ The reporting accountant's report should:
- (a) describe the nature of the engagement;
  - (b) state that the engagement was performed in accordance with generally accepted standards for such engagements;
  - (c) include or refer to a statement of relevant facts and assumptions, and the source of the information;
  - (d) express an opinion on the appropriate accounting principles, auditing standards or review standards to be applied to the matters described in the statement of relevant facts and assumptions and refer to available authoritative support and supporting rationale;
  - (e) state either:
    - (i) that the responsibility for the proper accounting treatment rests with the preparers of the financial statements, who should consult with their incumbent accountant; or
    - (ii) that the responsibility for a final assessment on the application of auditing or review standards in the particular circumstances rests solely with the incumbent accountant;
  - (f) state that the opinion is based on the facts and assumptions provided and may not apply if there is a change or discrepancy in those facts or assumptions;
  - (g) disclose the addressee, the name of the reporting accountant, the date of the report and the place of issue; and
  - (h) when applicable:
    - (i) state any restrictions on distribution of the report;
    - (ii) identify hypothetical transactions;
    - (iii) state any limitations on the application of the opinion; and
    - (iv) express a reservation of opinion when there is a limitation in the scope of the engagement such as the inability to obtain the response of the entity or its incumbent accountant, or any other restriction in obtaining necessary facts. [SEPT. 1, 1992 \*]

## **ASSURANCE AND RELATED SERVICES GUIDELINES**

**Transactions or conditions reportable under the "well-being reporting requirement" in federal financial institutions legislation (AuG-17)**

Amended paragraphs 4(e) and 10 to reflect new terminology in Section 5090.

**Audit of financial statements affected by environmental matters (AuG-19)**

Amended paragraph 21 as a result of revisions to Section 5136.

