

**CICA handbook – assurance
revisions release no. 22
June 2005**

In addition to the changes documented in detail below, a number of terminology changes have been made to conform wording throughout the Handbook with the terminology in new Sections 5095, 5141, 5143 and 5300. The following terminology changes have been made:

FORMER TERMINOLOGY	CONFORMED TERMINOLOGY	GENERAL STANDARD, SECTIONS AND GUIDELINES AFFECTED
<ul style="list-style-type: none"> Inherent risk and control risk (in combination) Combined levels of inherent risk and control risk 	<ul style="list-style-type: none"> Risks of material misstatement Assessed risk of material misstatement at the assertion level Assessed risk of material misstatement (depending on context) 	GSF-QC, 5050, 5135, 5136, 5150, 5301, 5303, 5306, 6010, AuG-29, AuG-39
<ul style="list-style-type: none"> Inherent risk is other than low Greater-than-low inherent risk 	<ul style="list-style-type: none"> Inherent risk is other than low 	5136, 5750, 6010
<ul style="list-style-type: none"> Control risk is less than maximum 	<ul style="list-style-type: none"> The auditor's risk assessment includes an expectation of the operating effectiveness of controls 	5049, 5136, 5145, 5310, 6010
<ul style="list-style-type: none"> Control risk is assessed at maximum 	<ul style="list-style-type: none"> The auditor's risk assessment does not include an expectation of the operating effectiveness of controls 	5136, 6010
<ul style="list-style-type: none"> Appropriately low level 	<ul style="list-style-type: none"> Acceptably low level 	5135, 5136, 5150, 5301, 6010, AuG-6, AuG-18, AuG-19
<ul style="list-style-type: none"> Knowledge Knowledge of the entity / business 	<ul style="list-style-type: none"> Understanding Understanding of the entity and its environment Understanding the entity and its environment, including its internal control (if context warrants) 	GSF-QC, 5049, 5135, 5136, 5150, 5220, 5301, 5305, 5306, 5310, 5751, 6010, 7050, 7200, AuG-6, AuG-13, AuG-16, AuG-17, AuG-19, AuG-28, AuG-29, AuG-32, AuG-39
<ul style="list-style-type: none"> Internal controls 	<ul style="list-style-type: none"> Controls Control activities Control procedures (depending on context) 	5135, 5220, 5306, 5900, 7200, AuG-18
<ul style="list-style-type: none"> Nature, extent and/or timing 	<ul style="list-style-type: none"> Nature, timing and/or extent 	GSF-QC, 5025, 5030, 5050, 5136, 5145, 5150, 5301, 5303, 5305, 5600, 7050, 7500, 8200, AuG-6, AuG-13, AuG-29, AuG-32, AuG-39
<ul style="list-style-type: none"> Upon substantial completion of the audit 	<ul style="list-style-type: none"> At or near the end of the audit 	5301, 5135, AuG-39

• Enterprise(s), company(ies) (generic usage)	• Entity(ies) (in Handbook material subject to other conforming changes)	5305, 5310, 5900, AuG-6, AuG-17
• At the planning stage	• When planning the audit	5136, AuG-39
• Internal control objectives	• Control objectives	5310, 5900

As well, references to "Accounting Recommendations" have been removed as a result of the issue of GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, CICA HANDBOOK – ACCOUNTING Section 1100, which clarifies the equal authority of italicized and non-italicized paragraphs.

GENERAL STANDARDS FOR FIRMS

General standards of quality control for firms performing assurance engagements, paragraph GSF-QC.072

Amended to reflect new audit risk terminology. Former wording of paragraph .072 was as follows:

- ♦ *The firm should establish policies and procedures that set out the nature, extent and timing of the performance of an engagement quality control review.* [DEC. 2005]

ASSURANCE RECOMMENDATIONS

Using the work of internal audit, paragraphs 5050.03 and 5050.05

Amended to reflect that internal audit is part of the monitoring component of internal control.

Reasonable assurance and audit risk, Section 5095 [JAN. 2006]

New.

Generally accepted auditing standards, paragraph 5100.02

Amended the examination standards as a result of new Sections 5095, 5141, 5142 and 5300. Former wording of the examination standards was as follows:

Examination standards

- (i) *The work should be adequately planned and properly executed using sufficient knowledge of the entity's business as a basis. If assistants are employed they should be properly supervised.* [JULY 1996]
- (ii) *A sufficient understanding of internal control should be obtained to plan the audit. When control risk is assessed below maximum, sufficient appropriate audit evidence should be obtained through tests of controls to support the assessment.* [OCT. 1992]
- (iii) *Sufficient appropriate audit evidence should be obtained, by such means as inspection, observation, enquiry, confirmation, computation and analysis, to afford a reasonable basis to support the content of the report.* [SEPT. 1975 *]

Materiality and audit risk in conducting an audit, Section 5130

Withdrawn. Replaced by new Section 5142.

The following Recommendations formerly appeared in Section 5130:

- .24 ♦ *The nature, extent and timing of the auditor's procedures should be designed so that, in the auditor's professional judgment, the risk of not detecting a material misstatement in the financial statements is reduced to an appropriately low level.* [NOV. 1988]
- .30 ♦ *The auditor should make preliminary decisions as to materiality and the components of audit risk at the planning stage of the engagement. If evidence obtained during the engagement indicates that these decisions are no longer appropriate, they should be revised and the nature, extent and timing of the auditor's procedures should be reconsidered.* [NOV. 1988]
- .37 ♦ *In assessing the extent to which the financial statements are or could be misstated, the auditor should estimate the likely aggregate misstatement by aggregating:*
 - (a) *misstatements identified as a result of performing specific auditing procedures on other than representative samples;*
 - (b) *projections of misstatements identified as a result of performing auditing procedures on representative samples;*
 - (c) *disagreements with accounting estimates; and*
 - (d) *the net effect of uncorrected misstatements in opening equity.*

The auditor should aggregate misstatements in such a way that he or she can ascertain whether, in relation to individual amounts, subtotals, or totals in the financial statements, they materially misstate the financial statements as a whole. Furthermore, consideration should be given to further possible misstatements, possible overall bias in accounting estimates and significant changes in bias from one period to the next. [NOV. 1988 *]

- .40 ♦ If, based on the audit evidence obtained, the auditor concludes that the financial statements are materially misstated, he or she should request that management address the material misstatement. If management does not appropriately address the misstatement, the auditor should express a reservation in his or her report. [NOV. 1988]

The auditor's responsibility to consider fraud, Section 5135 [JAN. 2006]

Revises and replaces THE AUDITOR'S RESPONSIBILITY TO CONSIDER FRAUD AND ERROR, Section 5135, as a result of the scope of application being limited to fraud.

Material on management representations related to internal control in former paragraph 5135.089(a) moved to new Section 5141 and renumbered as paragraph 5141.100.

Material dealing with management representations related to error in former paragraphs 5135.089(e) and 5135.090-.091 moved to new Section 5142 and renumbered as paragraphs 5142.24-.26.

Material dealing with communication of errors in former paragraphs 5135.094-5135.096 moved to Section 5751 and renumbered as paragraphs 5751.17-.19.

Added footnote in paragraph 5135.099 to indicate that significant weakness and material weakness are synonymous.

Terminology changed to conform with new audit risk usage and new guidance related to significant risk added in paragraphs 5135.057, 5135.060, 5135.062 and 5135.074.

The following Recommendations formerly appeared in Section 5135:

- .003 ♦ In planning and performing the audit to reduce audit risk to an appropriately low level, the auditor should consider the risks of material misstatements in the financial statements due to fraud or error. MATERIALITY AND AUDIT RISK IN CONDUCTING AN AUDIT, paragraph 5130.24, requires the auditor to design the nature, extent and timing of the auditor's procedures so that, in the auditor's professional judgment, the risk of not detecting a material misstatement in the financial statements is reduced to an appropriately low level. [DEC. 2004 *]
- .024 ♦ The auditor should maintain an attitude of professional scepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience with the entity about the honesty and integrity of management and those charged with governance. The auditor's previous experience with the entity contributes to an understanding of the entity. However, although the auditor cannot be expected to fully disregard past experience with the entity about the honesty and integrity of management and those charged with governance, the maintenance of an attitude of professional scepticism is important because there may have been changes in circumstances. When making enquiries and performing other audit procedures, the auditor exercises professional scepticism and is not satisfied with less-than-persuasive audit evidence based on a belief that management and those charged with governance are honest and have integrity. With respect to those charged with governance, maintaining an attitude of professional scepticism means that the auditor carefully considers the reasonableness of responses to enquiries of those charged with governance, and other information obtained from them, in light of all other evidence obtained during the audit. [DEC. 2004 *]
- .026 ♦ Members of the engagement team should discuss the susceptibility of the entity's financial statements to material misstatement due to fraud or error.⁴ [DEC. 2004 *]
- .028 ♦ The engagement partner should consider which matters are to be communicated to members of the engagement team not involved in the discussion. All of the members of the engagement team do not necessarily need to be informed of all of the matters covered in the discussion. For example, a member of the engagement team involved in audit of a component of the entity may not need to know the matters covered regarding another component of the entity. [DEC. 2004 *]
- .033 ♦ When obtaining and applying knowledge of the entity's business to provide a basis for adequately planning and properly executing the audit, including obtaining a sufficient understanding of internal control, the auditor should make enquiries of management regarding:
- (a) management's assessment of the risk that the financial statements may be materially misstated due to fraud;
 - (b) management's process for identifying and responding to the risks of fraud in the entity, including any specific risks of fraud that management has identified or account balances or classes of transactions for which a risk of fraud is likely to exist;
 - (c) management's process for identifying and responding to the risks of error in the entity;
 - (d) management's communication, if any, to the audit committee or equivalent regarding its processes for identifying and responding to the risks of fraud and error in the entity; and
 - (e) management's communication, if any, to employees regarding its views on business practices and ethical behaviour. [DEC. 2004 *]
- .037 ♦ The auditor should make enquiries of management, internal audit, and others within the entity, as appropriate, to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity, and whether management has discovered any material errors. [DEC. 2004 *]

- .042 ♦ *The auditor should obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud and error in the entity and the internal control that management has established to mitigate these risks.* [DEC. 2004 *]
- .045 ♦ *The auditor should make enquiries of the audit committee or equivalent to determine whether it has knowledge of any actual, suspected or alleged fraud affecting the entity.* [DEC. 2004 *]
- .047 ♦ *When obtaining and applying knowledge of the entity's business to provide a basis for adequately planning and properly executing the audit, including obtaining a sufficient understanding of internal control, the auditor should consider whether the information obtained indicates that one or more fraud risk factors are present.* [DEC. 2004 *]
- .052 ♦ *When performing analysis as required by ANALYSIS, Section 5301, the auditor should consider unusual or unexpected relationships that may indicate risks of material misstatement due to fraud or error. As part of such analysis, when planning the audit, the auditor should perform analytical procedures relating to revenue.* [DEC. 2004 *]
- .054 ♦ *When obtaining and applying knowledge of the entity's business to provide a basis for adequately planning and properly executing the audit, including obtaining a sufficient understanding of internal control, the auditor should consider whether other information obtained concerning the entity subject to audit indicates risks of material misstatement due to fraud or error.* [DEC. 2004 *]
- .056 ♦ *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 5200-5220, for the financial statements as a whole, and for relevant assertions relating to significant account balances or classes of transactions, the auditor should assess the risks of material misstatement due to fraud or error. For those assessed risks that could result in a material misstatement due to fraud, to the extent not already done so, the auditor should consider the design of the entity's policies and procedures and whether they have been implemented.* [DEC. 2004 *]
- .061 ♦ *The auditor should determine overall responses to address the assessed risks of material misstatement due to fraud or error at the financial statement level and should design and perform further audit procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement at the assertion level.* [DEC. 2004 *]
- .065 ♦ *In determining overall responses to address the assessed risks of material misstatement at the financial statement level, the auditor should:*
 - (a) *consider the assignment and supervision of personnel;*
 - (b) *consider the accounting policies used by the entity; and*
 - (c) *incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures.* [DEC. 2004 *]
- .075 ♦ *To respond to the risk of management override of internal controls, the auditor should design and perform audit procedures to:*
 - (a) *test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of financial statements;*
 - (b) *review accounting estimates for biases that could result in material misstatement due to fraud; and*
 - (c) *obtain an understanding of the business rationale of significant transactions that the auditor becomes aware of that are outside of the normal course of business for the entity or that otherwise appear to be unusual given the auditor's understanding of the entity and its environment.* [DEC. 2004 *]
- .084 ♦ *The auditor should consider whether analytical procedures performed on substantial completion of the audit (see ANALYSIS, paragraph 5301.23) indicate a previously unrecognized risk of material misstatement due to fraud or error. Determining which particular trends and relationships may indicate a risk of material misstatement due to fraud or error requires professional judgment. Unusual relationships involving year-end revenue and income are particularly relevant. These might include, for example, uncharacteristically large amounts of income being reported in the last few weeks of the reporting period from unusual transactions, or income that is inconsistent with trends in cash flow from operations.* [DEC. 2004 *]
- .085 ♦ *When the auditor identifies a misstatement, the auditor should consider whether such a misstatement is indicative of fraud or error, and if there is an indication of fraud, the auditor should consider the implications of the misstatement in relation to other aspects of the audit, particularly the reliability of management representations.* [DEC. 2004 *]
- .088 ♦ *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, Section 5130, provides guidance on the evaluation and disposition of misstatements and their effect on the auditor's report.* [DEC. 2004 *]
- .089 ♦ *The auditor should obtain written representations from management that:*
 - (a) *it acknowledges its responsibility for the design and implementation of internal control to prevent and detect fraud and error;*
 - (b) *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;*

- (c) it has disclosed to the auditor its knowledge of fraud or suspected fraud affecting the entity involving:
 - (i) management;
 - (ii) employees who have significant roles in internal control; or
 - (iii) others, where the fraud could have a non-trivial effect on the financial statements;
 - (d) it has disclosed to the auditor its knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
 - (e) 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. [DEC. 2004 *]
- .094 ♦ 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. The auditor uses professional judgment in determining the matters reported to the audit committee or equivalent, which ordinarily include:
- (a) questions regarding management competence;
 - (b) non-trivial misstatements, whether or not corrected;
 - (c) errors that indicate significant weaknesses in internal control, including the design or operation of the entity's financial reporting process; and
 - (d) errors that may cause future financial statements to be materially misstated. [DEC. 2004 *]
- .095 ♦ 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. 2004 *]
- .097 ♦ If the auditor has identified a fraud or has obtained information that indicates that a fraud may exist, the auditor should communicate these matters to the appropriate level of management on a timely basis. [DEC. 2004 *]
- .099 ♦ If the auditor has identified any of the following matters, the auditor should communicate them to the audit committee or equivalent in accordance with COMMUNICATIONS WITH THOSE HAVING OVERSIGHT RESPONSIBILITY FOR THE FINANCIAL REPORTING PROCESS, Section 5751:
- (a) questions regarding the honesty and integrity of management;
 - (b) fraud involving management;
 - (c) fraud involving employees who have significant roles in internal control;
 - (d) fraud (whether caused by management or other employees) that results, or may result, in a non-trivial misstatement of the financial statements; and
 - (e) matters that may cause future financial statements to be materially misstated. [DEC. 2004 *]
- .103 ♦ When reporting in accordance with INTERNAL CONTROL IN THE CONTEXT OF AN AUDIT — WEAKNESSES IN INTERNAL CONTROL, Section 5220, the auditor should make management and the audit committee or equivalent aware, as soon as practicable, and at the appropriate level of responsibility, of significant weaknesses in the design or implementation of internal control to prevent and detect fraud or error that may have come to the auditor's attention. [DEC. 2004 *]
- .108 ♦ If, as a result of a misstatement resulting from fraud or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit, 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. 2004 *]
- .112 ♦ 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. 2004 *]*

.115 ◆ **The auditor should document:**

- (a) *the significant decisions reached during the discussion among the engagement team regarding the susceptibility of the entity's financial statements to material misstatement due to fraud or error;*
- (b) *the assessed risks of material misstatement due to fraud at the financial statement level and at the assertion level;*
- (c) *the overall response to the assessed risks of material misstatement at the financial statement level and the nature, timing and extent of audit procedures and the linkage of those procedures with the assessed risks of material misstatement at the assertion level;*
- (d) *the results of the audit procedures, including those designed to address the risk of management override of internal controls and the risk of a material misstatement due to fraud caused by improper revenue recognition;*
- (e) *the communications about fraud or error made to management, the audit committee or equivalent, regulators and others; and*
- (f) *when the auditor has concluded that the presumption that there is a risk of material misstatement due to fraud related to revenue recognition is not applicable in the circumstances of the engagement, the reasons supporting the auditor's conclusion (see paragraph 5135.060). [DEC. 2004 *]*

Misstatements — illegal acts, Section 5136

Amended paragraph 5136.11 to reflect new audit risk terminology. Former wording of paragraph 5136.11 was as follows:

◆ *The auditor should apply his or her knowledge of the entity's business and make enquiries of management to identify laws and regulations that, if violated, could reasonably be expected to result in a material misstatement in the financial statements. [JAN. 1995 *]*

Amended paragraph 5136.12 to replace reference to former Section 5140 with a reference to requirements of new Section 5141.

Amended paragraph 5136.16 to replace reference to former Section 5130 with a reference to requirements of new Section 5141.

Amended paragraphs 5136.17 and 5136.19 to replace reference to former Section 5130 with a reference to requirements of new Section 5143.

Knowledge of the entity's business, Section 5140

Withdrawn. Replaced by new Section 5141.

The following Recommendations formerly appeared in Section 5140:

- .03 ◆ *In performing an audit, the auditor should obtain and apply knowledge of the entity's business in a continuous and cumulative manner. [JULY 1996]*
- .06 ◆ *The auditor should obtain sufficient knowledge of the entity's business to provide a basis for adequately planning and properly executing the audit, including:*
- (a) *determining materiality levels;*
 - (b) *assessing inherent risk;*
 - (c) *obtaining a sufficient understanding of internal control;*
 - (d) *identifying the nature and sources of audit evidence available;*
 - (e) *designing audit procedures, including those pertaining to management's accounting estimates;*
 - (f) *understanding the substance of transactions;*
 - (g) *assessing whether sufficient appropriate audit evidence has been obtained, including evidence related to significant management representations;*
 - (h) *assessing the appropriateness of management's selection and application of accounting principles; and*
 - (i) *evaluating management's overall financial statement presentation. [JULY 1996]*
- .11 ◆ *In assessing the sufficiency of knowledge obtained about a specific aspect of the entity's business, the auditor should consider the significance of that aspect to the audit. [JULY 1996]*

Understanding the entity and its environment and assessing the risks of material misstatement, Section 5141
[JAN. 2006]

New.

Materiality, Section 5142 [JAN. 2006]

Revises and replaces MATERIALITY AND AUDIT RISK IN CONDUCTING AN AUDIT, Section 5130, as a result of the scope of application being limited to materiality. Previous guidance that applied to audit risk is moved to new Section 5095.

Former paragraphs 5135.089(e) and 5135.090-091 dealing with management representations related to error moved to new Section 5142 and renumbered as paragraphs 5142.24-26.

The auditor's procedures in response to assessed risks, Section 5143 [JAN. 2006]

New.

Documentation, paragraph 5145.05

Amended to reflect documentation requirements in new Section 5141.

Planning and supervision, Section 5150

Amended paragraph 5150.01 to reflect revised examination standard (i) in paragraph 5100.02.

Amended paragraph 5150.04 to replace reference to former Sections 5200 to 5220 with a reference to requirements of new Sections 5141 and 5143.

Amended Appendices to replace references to former Section 5140 with references to requirements of new Section 5141.

Internal control in the context of the audit — scope and introduction, Section 5200

Withdrawn. Replaced by new Sections 5141 and 5143 taken together.

Internal control in the context of the audit — understanding internal control for audit planning purposes, Section 5205

Withdrawn. Replaced by new Sections 5141 and 5143 taken together.

The following Recommendations formerly appeared in Section 5205:

- .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 risks of material misstatement due to fraud or error; and*
 - (c) *determining the nature, extent and timing of auditing procedures (see also THE AUDITOR'S RESPONSIBILITY TO CONSIDER FRAUD AND ERROR, Section 5135). [OCT. 1992 *]*
- .13 ◆ *The auditor's understanding of internal control for purposes of planning the audit should include knowledge about the design of policies and procedures and whether they have been implemented. [OCT. 1992]*
- .22 ◆ *When planning to use a substantive audit approach for specific financial statement assertions, the auditor should obtain an understanding of:*
 - (a) *the control environment; and*
 - (b) *control systems that collect, record and process data and report the resulting information. [OCT. 1992]*
- .24 ◆ *When planning to use a combined audit approach for specific financial statement assertions, the auditor should obtain, to the extent necessary to plan tests of controls, an understanding of:*
 - (a) *the control environment;*
 - (b) *control systems that collect, record and process data and report the resulting information; and*
 - (c) *control systems that enhance the reliability of data and information. [OCT. 1992]*

Internal control in the context of the audit — assessing control risk, Section 5210

Withdrawn. Replaced by new Sections 5141 and 5143 taken together.

The following Recommendations formerly appeared in Section 5210:

- .10 ◆ *Control risk should be assessed at maximum for a relevant financial statement assertion if policies and procedures do not address that assertion or are unlikely to be effective. [OCT. 1992]*
- .12 ◆ *Control risk should be assessed at maximum for a relevant financial statement assertion if the auditor considers that it would not be efficient to evaluate the effectiveness of policies and procedures relating to that assertion. [OCT. 1992]*
- .14 ◆ *When planning to assess control risk below maximum for a relevant financial statement assertion, the auditor should:*
 - (a) *have identified policies and procedures that are likely to prevent or detect material misstatements in that assertion; and*
 - (b) *plan to perform tests of controls to determine whether such policies and procedures are operating effectively. [OCT. 1992]*
- .29 ◆ *When the auditor's assessment of control risk for specific financial statements assertions is below maximum for all or part of the audit period, he or she should perform tests of controls covering the same period to obtain sufficient appropriate audit evidence to support the assessed level. [OCT. 1992]*
- .33 ◆ *The auditor should assess control risk for relevant financial statement assertions relating to significant account balances or classes of transactions. Such assessments should be used to assist in determining the nature, extent and timing of substantive procedures. [OCT. 1992]*

Internal control in the context of the audit — paragraph 5220.02

Amended to reflect new definitions of internal control and controls relevant to the audit.

Added footnote in paragraph 5220.01 to indicate that significant weakness and material weakness are synonymous.

Internal control in the context of the audit — Appendices to Sections 5200 to 5220

Withdrawn as a result of new Sections 5141 and 5143.

Audit evidence, Section 5300 [JAN. 2006]

Revises and replaces AUDIT EVIDENCE, Section 5300.

The following Recommendations formerly appeared in Section 5300:

- .08 ♦ *Regardless of assessed levels of inherent and control risk, the auditor should perform substantive procedures covering all financial statement assertions related to significant account balances or classes of transactions.* [OCT. 1992]
- .21 ♦ *The auditor should evaluate all the evidence he or she has obtained and assess its sufficiency and appropriateness. The auditor should consider evidence supporting and evidence refuting an assertion and should be alert for evidence supporting one assertion but inconsistent with that supporting another.* [JAN. 1978 *]
- .33 ♦ *When the auditor performs substantive procedures on the transactions building up to an account balance for less than the entire period or obtains evidence supporting an account balance as at a date other than the balance sheet date, he should obtain sufficient assurance that the account balances at the balance sheet date have not been misstated because of incorrect accounting entries and unrecorded transactions in the intervening period.* [JAN. 1978 *]
- .36 ♦ *The auditor should consider audit evidence available up to the date of his or her report to determine whether matters requiring reflection in the financial statements have been identified. After the date of the report, the auditor does not have a continuing responsibility to seek further evidence but should respond to facts or events that come to his or her attention that may affect the financial statements* ² (see DATE OF THE AUDITOR'S REPORT, Section 5405, and SUBSEQUENT EVENTS, Section 6550). [MAY 1984 *]

Analysis, Section 5301

Amended paragraph 5301.01 to delete the reference to former examination standard (iii) in paragraph 5100.02, which referred specifically to analysis. The revised examination standard does not contain such a reference.

Amended paragraph 5301.08 to reflect new audit risk terminology. Former wording of paragraph 5301.08 was as follows:

- ♦ *The auditor should use analysis in planning the audit to assist in designing the nature, extent and timing of other auditing procedures.* [JAN. 1997]

Amended paragraph 5301.11 to add a reference to significant risk.

Amended paragraph 5301.23 to reflect new audit risk terminology. Former wording of paragraph 5301.23 was as follows:

- ♦ *Upon substantial completion of the audit, the auditor should use analytical procedures to assist in evaluating the overall financial statement presentation.* [JAN. 1997]

Confirmation, Section 5303

Amended paragraph 5303.01 to reflect revised examination standard (iii) in paragraph 5100.02.

Amended paragraph 5303.28 to reflect new audit risk terminology. Former wording of paragraph 5303.28 was as follows:

- ♦ *The auditor should use confirmation as a means of obtaining audit evidence regarding accounts receivable, except that its use would not be required in the following circumstances:*

- (a) *the auditor has assessed the combined level of inherent risk and control risk associated with the financial statement assertions being audited as low and other substantive audit procedures would provide sufficient appropriate evidence in these circumstances; or*
- (b) *confirmation would be ineffective in providing reliable audit evidence, based on information considered by the auditor in planning the audit.* [SEPT. 1996]

Auditing fair value measurements and disclosures, Section 5306

Amended to reflect the conforming changes made by the International Auditing and Assurance Standards Board (IAASB) to International Standard on Auditing 545, "Auditing Fair Value Measurements and Disclosures" (ISA 545), with which Section 5306 is harmonized.

Added paragraph 5306.03 to explain that fair value measurements are not in themselves assertions, but may be relevant to specific assertions.

Renumbered former paragraphs 5306.03-.15 as 5306.04-.16.

Amended paragraph 5306.04 (former paragraph 5306.03) to provide a reference to new Section 5141. Former wording of paragraph 5306.03 was as follows:

- ♦ *The auditor should obtain sufficient appropriate audit evidence that fair value measurements and disclosures are in accordance with generally accepted accounting principles.* [JUNE 2004 *]

Amended paragraph 5306.13 (former paragraph 5306.12) to reflect new audit risk terminology. Former wording of paragraph 5306.12 was as follows:

- ♦ *The auditor should obtain an understanding of the entity's process for determining fair value measurements and disclosures and of the relevant internal controls sufficient to develop an effective audit approach.* [JUNE 2004 *]

Added paragraph 5306.17 to explain that the auditor obtains a sufficient understanding of control activities related to the determination of the entity's fair value measurements and disclosures in order to identify and assess the risks of material misstatement and to design the nature, timing and extent of further audit procedures.

Renumbered former paragraphs 5306.16-.17 as 5306.18-.19.

Amended paragraph 5306.18 (former paragraph 5306.16) to change "inherent and control risk" to "risks of material misstatement at the assertion level" to reflect new audit risk terminology, and to refer to "further audit procedures" to reflect conforming changes made by the IAASB to ISA 545. Former wording of paragraph 5306.16 was as follows:

- ♦ *After obtaining an understanding of the entity's process for determining fair value measurements and disclosures, the auditor should assess inherent and control risk related to the fair value measurements and disclosures in the financial statements to determine the nature, timing and extent of the audit procedures.* [JUNE 2004 *]

Added paragraph 5306.20 to refer the auditor to new Section 5141 for guidance when the auditor has determined that the risk of material misstatement related to a fair value measurement or disclosure is a significant risk that requires special audit consideration.

Renumbered former paragraphs 5306.18-.34 as paragraphs 5306.21-.37.

Amended paragraph 5306.25 (former paragraph 5306.22) to reflect guidance in FINANCIAL INSTRUMENTS, CICA HANDBOOK – ACCOUNTING paragraph 3861.70.

Amended paragraphs 5306.26-.27 (former paragraphs 5306.23-.24) to replace "evidence" with "audit evidence" to reflect conforming changes made by the IAASB to ISA 545. Former wording of paragraph 5306.23 was as follows:

- ♦ *The auditor should obtain evidence about management's intent to carry out specific courses of action when intent is relevant to the use of fair value measurements, related presentation and disclosures and how changes in fair values are reported in the financial statements. The auditor also should evaluate management's ability to carry out those courses of action.* [JUNE 2004 *]

Amended paragraph 5306.37 (former paragraph 5306.34) to replace "test" with "design and perform further audit procedures" to reflect conforming changes made by the IAASB to ISA 545 and to reflect new audit risk terminology. Former wording of paragraph 5306.34 was as follows:

- ♦ *Based on the assessment of inherent and control risk, the auditor should test the entity's fair value measurements and disclosures.* [JUNE 2004 *]

Added paragraph 5306.38 to refer the auditor to new Section 5143 for guidance on the auditor's responsibility to design and perform further audit procedures whose nature, timing and extent are responsible to the assessed risk of material misstatement at the assertion level, and to refer to additional specific guidance on substantive procedures that may be relevant in the context of the entity's fair value measurements and disclosures.

Renumbered former paragraphs 5306.35-.66 as paragraphs 5306.39-.70.

Amended paragraph 5306.39 (former paragraph 5306.35) to replace "tests of" with "procedures relating to" to reflect conforming changes made by the IAASB to ISA 545.

Amended paragraphs 5306.40 and 5306.47 (former paragraphs 5306.36 and 5306.43) to replace "evidence" with "audit evidence" to reflect conforming changes made by the IAASB to ISA 545.

Amended paragraph 5306.41 (former paragraph 5306.37) to replace "evidence" with "audit evidence", to replace "test" with "obtain audit evidence about" and to replace "risk" with "assessed risk of material misstatement" to reflect conforming changes made by the IAASB to ISA 545.

Amended paragraph 5306.42 (former paragraph 5306.38) to replace "audit procedures" with "further audit procedures", to replace "testing" with "obtaining audit evidence about", and to replace "risk" with "assessed risk of material misstatement", to reflect conforming changes made by the IAASB to ISA 545.

Amended paragraph 5306.44 (former paragraph 5306.40) to introduce the concept of significant risk. Former wording of paragraph 5306.40 was as follows:

- ♦ *When applicable, the auditor should evaluate whether the significant assumptions used by management in measuring fair values, taken individually and as a whole, provide a reasonable basis for the fair value measurements and disclosures in the entity's financial statements.* [JUNE 2004 *]

Amended paragraph 5306.55 (former paragraph 5306.51) to replace "test" with "perform further audit procedures on" to reflect conforming changes made by the IAASB to ISA 545. Former wording of paragraph 5306.51 was as follows:

- ♦ *The auditors should test the data used to develop the fair value measurements and disclosures and evaluate whether the fair value measurements have been properly determined from such data and management's assumptions.* [JUNE 2004 *]

Amended paragraph 5306.66 (former paragraph 5306.62) to replace "evidence" with "audit evidence" to reflect conforming changes made by the IAASB to ISA 545. Former wording of paragraph 5306.62 was as follows:

♦ *In making a final assessment of whether the fair value measurements and disclosures in the financial statements are in accordance with generally accepted accounting principles, the auditor should evaluate the sufficiency and appropriateness of the audit evidence obtained as well as the consistency of that evidence with other evidence obtained during the audit.* [JUNE 2004 *]

Reservations in the auditor's report, paragraph 5510.11

Amended to add a reference to new Section 5142.

Auditor's report on financial statements prepared using a basis of accounting other than generally accepted accounting principles, paragraph 5600.18

Amended to add a reference to new Section 5142.

Communication with management of matters identified during the financial statement audit, Section 5750

Amended paragraph 5750.01 to add references to new Sections 5141 and 5143.

Added footnote in paragraph 5750.04 to indicate that significant weakness and material weakness are synonymous.

Amended paragraph 5750.13 to add a reference to material misstatements due to error.

Communications with those having oversight responsibility for the financial reporting process, Section 5751

Amended paragraph 5751.11(a) to replace reference to former Section 5140 with a reference to new Section 5141.

Amended paragraph 5751.16(c) to add references to new Sections 5141 and 5143.

Added footnote in paragraph 5751.16 to indicate that significant weakness and material weakness are synonymous.

Moved guidance dealing with communication of errors in former paragraphs 5135.094-.096 to new paragraphs 5751.17-.19. Former paragraphs 5751.17-.42 renumbered as 5751.20-.45.

Amended paragraph 5751.27 (former paragraph 5751.24) to introduce a reference to misstatements arising from error. Former wording of paragraph 5751.24 was as follows:

♦ *The auditor should communicate with the audit committee matters arising from the financial statement audit. Such matters include:*

- (a) *matters set out in other assurance standards concerning communications with the audit committee;*
- (b) *matters that have a significant effect on the qualitative aspects of accounting principles used in the entity's financial reporting; and*
- (c) *other matters arising from the audit that, in the judgment of the auditor, are important and relevant to the audit committee, including matters previously agreed with the audit committee to be communicated.*

The auditor would refer to paragraphs 5751.16-.23 for guidance on the matters to communicate. [DEC. 2002 *]

Opinions on control procedures at a service organization, paragraph 5900.11

Amended to reflect new audit risk terminology. Former wording of paragraph 5900.11 was as follows:

♦ *The service auditor's report on control procedures should:*

- (a) *in a scope paragraph:*
 - (i) *specifically identify the subject matter reported on and the nature of the examination; and*
 - (ii) *state that the examination was made in accordance with Canadian generally accepted auditing standards and accordingly included such tests and other procedures as were considered necessary in the circumstances;* [JULY 1987 **]
- (b) *in an opinion paragraph, except when reservations are required, express an opinion that the control procedures were suitably designed to provide reasonable, but not absolute, assurance that the stated internal control objectives of the system were achieved and that either the control procedures existed as at a point in time or the control procedures operated effectively throughout the period covered by the service auditor's report;* [JULY 1987 *]
- (c) *in a separate paragraph or paragraphs following the opinion paragraph, state:*
 - (i) *when the existence of control procedures was tested only as at a point in time, that an opinion cannot be expressed as to whether the control procedures existed at any other time;*
 - (ii) *the risk of projecting to the future:*
 - *the description of the stated internal control objectives and control procedures, and*
 - *any conclusions, based on the auditor's findings;*
 - (iii) *the fact that the potential effectiveness of control procedures at the service organization is subject to inherent limitations; and*
 - (iv) *restrictions, if any, placed on its use.* [JULY 2000 *]

Audit of related party transactions, Section 6010

Amended paragraph 6010.05 to reflect requirements of new Section 5143.

Amended paragraph 6010.07 to reflect new audit risk terminology and the requirements of new Section 5141.

Amended paragraphs 6010.08 and 6010.10 to reflect the requirements of new Section 5095.

Amended paragraphs 6010.09 and 6010.15 to reflect new audit risk terminology. Former wording was as follows:

- .09 ◆ *The auditor should make enquiries of management to obtain knowledge of related parties and related party transactions that management has identified.* [APRIL 1999]
- .15 ◆ *When the auditor assesses inherent risk as low (even if control risk is assessed at maximum), the auditor should nevertheless:*
 - (a) *make enquiries of management to confirm that all known related party transactions have been measured and disclosed in accordance with generally accepted accounting principles; and*
 - (b) *be alert for unidentified related parties and related party transactions when performing other procedures during the audit, as described in paragraphs 6010.21-.22.* [APRIL 1999]

Amended paragraph 6010.17 to replace reference to former Section 5205 with a reference to requirements of new Section 5141.

Amended paragraph 6010.19 to replace reference to former Section 5205 with a reference to requirements of new Section 5143.

Amended paragraph 6010.20 to reflect new audit risk terminology. Former wording of paragraph 6010.20 was as follows:

- ◆ *When the auditor assesses both inherent risk and combined inherent and control risk as greater-than-low, the auditor should perform sufficient substantive procedures, in addition to those set out in paragraphs 6010.15 and 6010.27, to reduce audit risk to an appropriately low level.* The Appendix sets out examples of detailed tests of transactions and balances concerning identification and measurement. [APRIL 1999]

Communications with law firms regarding claims and possible claims, paragraph 6560.03

Amended to reflect revised examination standard (iii) in paragraph 5100.02.

Auditor review of interim financial statements, Section 7050

Footnote added in paragraph 7050.20(i)(v) to indicate that significant weakness and material weakness are synonymous.

Amended the interim review standards in paragraph 7050.26 for consistency with examination standards in paragraph 5100.02. Former wording of the interim review standards in paragraph 7050.26 was as follows:

Interim review standards

- (i) *The work should be adequately planned and properly executed. If assistants are employed, they should be properly supervised.*
- (ii) *The auditor should possess or acquire sufficient knowledge of the business carried on by the entity, and of the entity's internal control as it relates to the preparation of both annual and interim financial information, to be able to:*
 - (a) *identify types of potential material misstatements and consider the likelihood of their occurrence in the interim financial statements; and*
 - (b) *make intelligent enquiries and assessment of information obtained.*
- (iii) *The auditor should perform a review of the interim financial statements with the limited objective of providing the auditor with a basis for reporting whether he or she is aware of any material modification that needs to be made for such statements to be in accordance with Canadian generally accepted accounting principles.*⁵
Such a review should consist of:
 - (a) *enquiry, analytical procedures and discussion; and*
 - (b) *additional enquiries or other procedures, when the auditor becomes aware of information that leads him or her to question whether any material modification needs to be made for the interim financial statements to be in accordance with Canadian generally accepted accounting principles, sufficient to enable the auditor to report.* [APRIL 2004 *]

Amended paragraph 7050.29 to reflect new audit risk terminology and Section references. Former wording of paragraph 7050.29 was as follows:

- .29 ◆ *Through enquiry of officials responsible for financial and accounting matters, the entity's auditor should update his or her knowledge of both the entity's business, and its internal control as it relates to both annual and interim financial statements, acquired in the course of auditing the annual financial statements for the prior year or years (see KNOWLEDGE OF THE ENTITY'S BUSINESS, Section 5140, and INTERNAL CONTROL IN THE CONTEXT OF AN AUDIT, Sections 5200-5220) and in the course of reviewing the interim financial statements for prior periods of the current financial year.* [APRIL 2004 *]

Amended paragraph 7050.31 to reflect new audit risk terminology. Former wording of paragraph 7050.31 was as follows:

- .31 ♦ *When the auditor has not audited the most recent annual financial statements, has not (when applicable) reviewed interim financial statements of the current year, or for other reasons has not previously acquired knowledge sufficient for purposes of this Section of:*
- (a) *the entity's business; and*
 - (b) *its internal control as it relates to the preparation of both annual and interim financial statements; he or she should perform procedures to obtain such knowledge.* [APRIL 2004 *]
- Auditor assistance to underwriters and others, Section 7200**
- Amended paragraph 7200.051 to refer to the five components of internal control described in new Section 5141.
- Amended paragraphs 7200.053, 7200.078(a), 7200.087(a) and 7200.118 to reflect new audit risk terminology. Former wording was as follows:
- .053 ♦ *The auditor should have obtained knowledge of the internal controls, policies and procedures as they relate to the preparation of both annual and interim financial information, before commenting on:*
- (a) *unaudited financial statements included or incorporated by reference in the offering document;*
 - (b) *unaudited internal financial statements for periods subsequent to the periods covered by the financial statements included or incorporated by reference in the offering document;*
 - (c) *selected financial information, including changes in financial statement items; or*
 - (d) *statistics and other information.* [JAN. 2001 *]
- .078 ♦ *The auditor should comment on financial information contained in the offering document only when:*
- (a) *it has been obtained from the entity's financial statements or accounting records that are subject to the entity's internal controls, policies and procedures;*
 - (b) *it has been derived directly from such financial statements or accounting records by analysis or computation (for example, percentages or financial ratios); or*
 - (c) *it has been the subject of a separate assurance engagement performed in accordance with STANDARDS FOR ASSURANCE ENGAGEMENTS, Section 5025.* [JAN. 2001 *]
- .087 ♦ *The auditor should comment on quantitative information other than financial information only when:*
- (a) *it has been obtained from accounting records that are subject to internal controls, policies and procedures of which the auditor has knowledge; or*
 - (b) *it has been the subject of a separate assurance engagement performed in accordance with STANDARDS FOR ASSURANCE ENGAGEMENTS, Section 5025.* [JAN. 2001 *]
- .118 ♦ *In a due diligence meeting, the auditor should not provide any assurance, positive or negative, on any matter, such as the adequacy of the entity's internal controls, unless that matter has been the subject of a separate assurance engagement performed in accordance with STANDARDS FOR ASSURANCE ENGAGEMENTS, Section 5025.* [MAR. 2005 *]

Footnote added in the Appendix to indicate that significant weakness and material weakness are synonymous.

ASSURANCE AND RELATED SERVICES GUIDELINES

Audit of actuarial liabilities of life insurance enterprises (AuG-15)

AuG-15 has not been revised to conform with changes to new Sections 5095, 5141, 5142 and 5143. A note has been added to this Guideline to explain that such amendments have not been made because of further revisions to the Handbook to be made in the near future.

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

Footnote added in paragraph 4 to indicate that significant weakness and material weakness are synonymous.

Criteria for non-derivative reports issued under subsection 295(5) of "An Act Respecting Trust Companies and Savings Companies in Quebec" (AuG-18)

Amended paragraph 12 to reflect revised definition of control environment described in new Section 5141.

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

Amended paragraph 5 to replace reference to former Section 5140 with reference to requirements in new Section 5141.

Amended paragraphs 7 and 15 to replace references to former Section 5130 with references to requirements in new Section 5142.

Amended paragraph 11 to replace reference to former Section 5200 with reference to requirements in new Section 5141.

Amended paragraphs 13 and 14 to replace references to former Section 5205 with references to requirements in new Section 5141.

Amended paragraph 15 to replace reference to former Section 5130 with a reference to the new examination standards in paragraph 5100.02.

Using a legal opinion as audit evidence concerning a transfer of financial assets (AuG-28)

Amended paragraph 18 to replace reference to former paragraph 5300.07 with a reference to the new guidance in paragraph 5300.07.

Audit of employee future benefits — defined benefits plans (AuG-29)

Amended paragraph 10 to replace reference to former Section 5130 with a reference to the requirements of new Section 5143.

Applying the concepts of materiality and risk in conducting an audit (AuG-31)

Withdrawn. Replaced by AuG-41.

Electronic commerce — effect on the audit of financial statements (AuG-32)

Amended paragraph 1 to replace references to former Sections 5130, 5140 and 5200 to 5220 with references to the requirements of new Sections 5141, 5142 and 5143.

Amended paragraph 8 to replace reference to former Section 5140 with a reference to requirements of new Section 5141.

Amended paragraph 21 to reflect the requirements of new Section 5141.

Amended paragraph 25 to replace reference to former Section 5140 with a reference to requirements of new Sections 5141 and 5143.

Auditing in an EDP environment (AuG-33)

Withdrawn.

Computer-assisted audit techniques (AuG-34)

Withdrawn.

Risk assessments and internal control — CIS characteristics and considerations (AuG-35)

Withdrawn.

IT environments — stand-alone personal computers (AuG-36)

Withdrawn.

IT environments — online computer systems (AuG-37)

Withdrawn.

IT environments — database systems (AuG-38)

Withdrawn.

Auditing derivative financial instruments (AuG-39)

Amended paragraph 12 to replace reference to former Section 5140 with a reference to requirements of new Section 5141.

Amended paragraph 18 to replace references to former Section 5130 with references to requirements of new Sections 5095 and 5142.

Amended paragraph 19 to replace reference to former Sections 5200 to 5220 with a reference to requirements of new Sections 5141 and 5143.

Amended paragraph 21 to replace reference to former Section 5130 with a reference to the requirements of new Section 5141.

Amended paragraph 22 to delete reference to former Section 5130 and former Assurance and Related Services Guideline AuG-31.

Amended paragraph 24 to replace references to former Sections 5200 to 5220 with references to requirements of new Sections 5141 and 5143 and to replace reference to former Section 5140 with a reference to requirements of new Section 5141.

Amended paragraph 48 to replace description of control risk with a reference to new Section 5095.

Amended paragraph 49 to replace reference to former Section 5210 with a reference to the requirements of new Sections 5141 and 5143.

Amended paragraph 58 to replace reference to former Section 5300 with a reference to the requirements of new Section 5143.

Added footnote in paragraph 58 to indicate that significant weakness and material weakness are synonymous.

Added footnote to the subheading preceding paragraph 68 to refer to new guidance on assertions in Section 5300.

Amended paragraph 71(d) to remove "recognized and unrecognized" as derivative financial instruments are now recognized in accordance with FINANCIAL INSTRUMENTS — RECOGNITION AND MEASUREMENT, CICA HANDBOOK – ACCOUNTING Section 3855.

Deleted paragraph 78 as derivative financial instruments are now recognized in accordance with FINANCIAL INSTRUMENTS — RECOGNITION AND MEASUREMENT, CICA HANDBOOK – ACCOUNTING Section 3855.

Renumbered former paragraphs 79-81 as paragraphs 78-80.

Applying the concept of materiality (AuG-41)

Issued.

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