

CICA handbook accounting and auditing highlight summary no. 92 June 1997

HIGHLIGHT SUMMARY

(Note: New Handbook material or changes in existing material are identified in each HANDBOOK REVISIONS RELEASE.)

EIC Abstracts

New

- Construction contractors — revenue recognition when the percentage of completion method is applicable (EIC-78)
- Gain recognition when the consideration received includes a claim on the assets sold (EIC-79)
- Accounting for the costs of modifying internal use computer software for Year 2000 compliance (EIC-80)

Amended

- Special termination benefits (EIC-23)
- Presentation of members' shares in a co-operative organization as liabilities or equity (EIC-72)

Internal control in the context of an audit — weaknesses in internal control, Section 5220

This Section revises and replaces INTERNAL CONTROL IN THE CONTEXT OF AN AUDIT — INTERNAL CONTROL LETTER, Section 5220. The material has been revised and expanded to:

- clarify the definition of a significant weakness in internal control;
- describe circumstances which may lead an auditor to conclude a weakness in internal control is significant; and
- describe the need for the auditor to communicate significant weaknesses to the audit committee or its equivalent.

The new Recommendations are effective for engagements to report on financial statements or financial reports relating to periods commencing on or after July 1, 1997.

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

This new Section provides a framework for the auditor for the communication of matters identified during the financial statement audit that may be of interest to management in discharging its responsibilities. The Section:

- discusses the derivative nature of the communication, explaining that the communication is a by-product of the financial statement audit and is not part of the process of obtaining sufficient appropriate audit evidence to support the content of the auditor's report on the financial statements;
- provides guidance on the content, documentation and timing of the communication and the re-communication of matters previously communicated;
- discusses the desirability of informing the audit committee or its equivalent of the types of matters that may be communicated, to whom they will be reported, and the derivative nature of the communication; and
- describes how the auditor would respond to a request from management for a communication in situations where the auditor did not identify any matters to communicate.

The new Recommendations are effective for engagements to report on financial statements or financial reports relating to periods commencing on or after July 1, 1997.

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