

CICA handbook – assurance revisions release no. 18 February 2004

ASSURANCE RECOMMENDATIONS

International Standards on Auditing, Section 5101

Amended paragraphs 5101.01, .04, .06, and .10 to reflect name changes of the International Auditing Practices Committee and the Assurance Standards Board to the International Auditing and Assurance Standards Board and the Auditing and Assurance Standards Board respectively.

Amended paragraph 5101.12 to refer to the following new material which is directed to the Canadian environment: AUDITOR ASSOCIATION WITH ANNUAL REPORTS, INTERIM REPORTS AND OTHER PUBLIC DOCUMENTS, Section 7500, and AUDITOR INVOLVEMENT WITH OFFERING DOCUMENTS OF PUBLIC AND PRIVATE ENTITIES, Section 7110.

Added a comparison of "Auditing fair value measurements and disclosures — ISA 545" and AUDITING FAIR VALUE MEASUREMENTS AND DISCLOSURES, Section 5306, to reflect issuance of new material by the IAASB and the AASB.

Updated the comparison of "Other information in documents containing audited financial statements — ISA 720" to reflect the release of AUDITOR ASSOCIATION WITH ANNUAL REPORTS, INTERIM REPORTS AND OTHER PUBLIC DOCUMENTS, Section 7500.

Updated the comparison of "The auditor's report on financial statements — ISA 700" and "The auditor's report on special purpose audit engagements — ISA 800" to reflect the release of AUDITOR'S REPORT ON FINANCIAL STATEMENTS PREPARED USING A BASIS OF ACCOUNTING OTHER THAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section 5600.

Corresponding changes made to the Appendix. The Appendix has also been updated with respect to Sections and Guidelines issued since March 2003 for which there are no comparable ISAs, and to update cross-references to relevant International Auditing Practice Statements.

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

Amended footnote 1 to be consistent with AuG-13, which expressly prohibits the application of derivative reporting in circumstances other than in relation to the reporting requirements of regulated financial institutions.

Auditor review of interim financial statements, Section 7050 [APRIL 2004 *]

Revises and replaces AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS, Section 7050.

* The Recommendations in this Section apply to an auditor's communication, in either oral or written form, made on or after April 1, 2004.

The following Recommendations formerly appeared in Section 7050:

- .14 ♦ When the entity's auditor is engaged to perform a review of interim financial statements, he or she should reach an understanding and agreement as to the terms of the engagement with the audit committee, and confirm with it the nature and scope of the procedures to be performed. [OCT. 2001 *]
- .21 ♦ Standards applicable to a review of interim financial statements by the entity's auditor are as follows:

General standard

The interim review should be performed and the report prepared by a person or persons having adequate technical training and proficiency in performing audits and in performing interim reviews in accordance with this Section, with due care and with an objective state of mind.

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 generally accepted accounting principles.*

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 a material modification needs to be made for the interim financial statements to be in accordance with generally accepted accounting principles, sufficient to enable the auditor to report.*

Reporting standards

(i) *The auditor should appropriately communicate the nature and extent of his or her involvement with the statements and the results of the interim review. The nature of the interim review should be clearly distinguished from that of an audit.*

(ii) *The communication, either oral or written, should indicate, based on the interim review:*

- (a) *whether the auditor is aware of any material modification that needs to be made for the interim financial statements to be in accordance with generally accepted accounting principles, and*
- (b) *the nature of any reservations and, if readily determinable, their effect on the interim financial statements; or*
- (c) *that no assurance can be provided and the reasons therefor.*

(iii) *If the auditor's interim review is to be referred to in any document containing the interim financial statements, the auditor should issue a written interim review report and request that it be included in the document. [OCT. 2001 **]*

.22 ♦ *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 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). [OCT. 2001 *]*

.23 ♦ *When the auditor has not audited the most recent annual financial statements, 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. [OCT. 2001 *]*

.24 ♦ *If the entity's internal control appears to contain deficiencies so significant that it is impracticable for the entity's auditor to apply his or her knowledge of accounting and financial reporting practices to the interim financial statements effectively, the auditor should consider whether this precludes the completion of an interim review of the statements. [OCT. 2001 *]*

.30 ♦ *If, as a result of performing a review of interim financial statements, the entity's auditor:*

- (a) *encounters a limitation in the scope of the review that was not anticipated when the terms of the engagement were agreed with the audit committee; or*
- (b) *becomes aware of matters that give him or her reason to believe that the interim financial statements are probably materially misstated as a result of a departure from generally accepted accounting principles; the auditor should discuss the matter as soon as practicable with the appropriate level of management. [OCT. 2001 *]*

.31 ♦ *If, in the judgment of the entity's auditor, management does not respond appropriately within a reasonable period of time, the auditor should inform the audit committee of the matters, either orally or in writing, as soon as practicable. If information is communicated orally, the auditor should document the communication in appropriate memoranda or notations in the working papers. [OCT. 2001 *]*

.32 ♦ *If, in the judgment of the entity's auditor, the audit committee does not respond appropriately within a reasonable period of time, the auditor should consider whether to:*

- (a) *express a reservation in the communication of the results of the review;*
- (b) *resign from the engagement to review the interim financial statements; and/or*
- (c) *resign from the appointment to audit the annual financial statements.*

The auditor may wish to seek legal advice when making these decisions. [OCT. 2001 *]

.34 ♦ *When an entity's auditor performs a review of interim financial statements, the auditor should appropriately communicate, in either oral or written form, the nature and extent of his or her involvement with the statements and the results of the review. The information to be communicated is set out in the context of a written report in paragraph 7050.39. [OCT. 2001 *]*

- .35 ♦ When there is a limitation in the scope of the interim review, the auditor should express a qualification in his or her communication, unless the limitation is such that, in the auditor's opinion, the effect of possible departures from generally accepted accounting principles could be so pervasive or significant that any statement the auditor might make would be meaningless. In the latter case, the auditor should deny any assurance. In either case, the auditor should describe the nature of the scope limitation. [OCT. 2001 *]
- .36 ♦ When the entity's auditor believes that the interim financial statements probably contain a material departure from generally accepted accounting principles, he or she should express a qualification in his or her communication, unless the departure is such that, in the auditor's opinion, the departure renders the financial statements misleading or virtually useless even when considered in conjunction with the auditor's communication. In the latter case, the auditor should render an adverse communication. In either case, the communication should describe the nature of the departure(s) and, if readily determinable, should state the effects on the interim financial statements. [OCT. 2001 *]
- .38 ♦ When comparative figures:
- (a) are based on information reported on by another auditor or public accountant; or
 - (b) were neither audited nor reviewed;
- the auditor should include appropriate disclosure in his or her communication. [OCT. 2001 *]
- .39 ♦ When the auditor of an entity who is engaged to review interim financial statements issues a written communication (an "interim review report"), the report should include the following:
- (a) an addressee (ordinarily the audit committee);
 - (b) identification of the interim financial statements reviewed;
 - (c) a statement that the financial statements are the responsibility of the entity's management;
 - (d) a statement that the review of the interim financial statements was performed in accordance with Canadian generally accepted standards for a review of interim financial statements by an entity's auditor, and that such an interim review consists principally of applying analytical procedures to financial data, and making enquiries of, and having discussions with, persons responsible for financial and accounting matters;
 - (e) a statement that an interim review is substantially less in scope than an audit, whose objective is an expression of opinion regarding the financial statements, and that accordingly, no such opinion is expressed;
 - (f) a statement that an interim review does not provide assurance that the auditor would become aware of any or all significant matters affecting the interim financial statements that might be identified in an audit;
 - (g) a statement about whether the auditor is aware of any material modification that needs to be made for the interim financial statements to be in accordance with Canadian generally accepted accounting principles;
 - (h) a statement restricting the use of the report to the addressee for its assistance in reviewing the interim financial statements, and disclaiming responsibility to any third party who may rely on it;
 - (i) the date of the report (ordinarily the date of completion of the interim review); and
 - (j) the name of the auditor.
- In addition, each page of the interim financial statements should be clearly marked as being unaudited. [OCT. 2001 *]
- .42 ♦ If the entity's auditor expands the interim review report to include information and explanations not intended as a reservation, the additional information and explanations should follow the negative assurance paragraph. For example, when it is appropriate to refer to a reservation of a preceding period, or to the matters referred to in paragraph 7050.38, the reference would be included as a separate paragraph following the negative assurance paragraph. [OCT. 2001 *]
- .43 ♦ The auditor should communicate with the audit committee matters arising from the interim review of the financial statements. The auditor would refer to COMMUNICATIONS WITH THOSE HAVING OVERSIGHT RESPONSIBILITY FOR THE FINANCIAL REPORTING PROCESS, paragraphs 5751.16-.23, for guidance on the matters to communicate. As the objective of a review of interim financial statements differs significantly from that of an audit, interim review procedures do not provide assurance that the auditor will become aware of all matters to communicate with the audit committee that would be identified as a result of an audit. [DEC. 2002 *]
- .49 ♦ The entity's auditor should document matters that in his or her professional judgment are important to support the content of his or her communication. [OCT. 2001 *]

Introduction to assurance recommendations that apply only to the public sector, Section PS 5000

Amended footnote 1 to reflect current definition of public sector.

ASSURANCE AND RELATED SERVICES GUIDELINE

Special reports on regulated financial institutions (AuG-13)

Amended to include new paragraphs 1 and 2 that expressly prohibit the application of derivative reporting in circumstances other than in relation to the reporting requirements of regulated financial institutions.

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