

CICA handbook – assurance highlight summary no. 11 March 2002

HIGHLIGHT SUMMARY

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

Audit of financial statements — an introduction, Section 5090

This Section has been amended to incorporate changes made to the equivalent International Standard on Auditing (ISA) 200, "Objective and General Principles Governing an Audit of Financial Statements." This change results from the decision to incorporate ISA 240, "The Auditor's Responsibility to Consider Fraud and Error in an Audit of Financial Statements" into the Handbook.

This change is not intended to alter the fundamental responsibilities of auditors, management and the board of directors to detect fraud. Rather, it incorporates language from ISA 200 to clarify the relationship between the assumption of management's good faith and the need to exercise professional scepticism and be alert for evidence that the assumption may not be valid.

The Section has also been amended to change the term "management" to exclude directors and members of the audit committee, and to introduce the terms "those charged with governance", which is used in ISAs, and "those with oversight responsibility for the financial reporting process".

The auditor's responsibility to consider fraud and error in an audit of financial statements, Section 5135

This Section has been revised to incorporate ISA 240, "The Auditor's Responsibility to Consider Fraud and Error in an Audit of Financial Statements" into the Handbook with as few changes as possible to adapt to Canadian circumstances. Generally, changes to ISA 240 have been limited to:

- substitution of Handbook references for those to other ISAs;
- certain terminology changes to conform to Handbook usage;
- changes to ensure that the Section does not set a standard that is lower than that in the existing Section 5135; and
- in the appendices, the addition of examples particularly relevant in Canada.

In comparison with its predecessor, this Section provides additional guidance, especially concerning the auditor's consideration of fraud risk factors, and examples of procedures to be performed in response to such factors. It also clarifies the auditor's responsibility to detect fraud. In particular, it states that a properly conducted audit is less likely to detect fraud than error, and less likely to detect management fraud than employee fraud. The new standard:

- emphasizes that the auditor's responsibility in planning the audit is related solely to obtaining reasonable assurance concerning the absence of material misstatements in the financial statements, whether caused by error or fraud;
- sets out the nature of the auditor's responsibility to communicate fraud and error encountered during the audit to management and the audit committee or equivalent, whether or not they result in a material misstatement in the financial statements;
- requires the auditor to obtain management's assessment of the risk of fraud, and controls in place to prevent and detect it;
- requires the discussion among audit team members of the susceptibility of the entity to material misstatements arising from fraud or error;
- adds specific requirements to obtain management representations concerning fraud and error; and
- provides guidance when the auditor concludes he or she should withdraw from the engagement as a result of fraud.

The Recommendations in revised Sections 5090 and 5135 are effective with respect to audits of financial statements and other financial information relating to periods ending on or after December 15, 2002.

In view of the close relationship between Sections 5130, 5135 and 5136, a new lead-in has been added to explain the interrelationship.

[Terms and Conditions and Privacy Policy](#)

[Help desk: Mon-Fri, 9am-5pm ET](#) [1-866-256-6842](#) [Contact Us](#) [Quick Reference Guide](#)

© 2001-2025, Knotia Canada Limited Partnership All rights reserved.