

CICA handbook – assurance highlight summary no. 1 March 1999

HIGHLIGHT SUMMARY

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

International Standards on Auditing, Section 5101

This Section has been updated for new and revised International Standards on Auditing (ISAs) and CICA Handbook – Assurance Sections and Guidelines.

Audit of related party transactions, Section 6010

This new Section updates and replaces ASSURANCE AND RELATED SERVICES GUIDELINE AuG-1, Related Party Transactions and Economic Dependence, and addresses disclosure and measurement considerations arising from RELATED PARTY TRANSACTIONS, CICA HANDBOOK – ACCOUNTING Section 3840 and DISCLOSURE OF RELATED PARTY TRANSACTIONS BY NOT-FOR-PROFIT ORGANIZATIONS, CICA HANDBOOK – ACCOUNTING Section 4460.

The Section adopts a risk-based approach to the audit of related party transactions, and provides guidance for the auditor to consider when assessing inherent and control risk and determining the extent of his or her procedures. Given the nature of related parties and related party transactions, the material sets out the following minimum procedures:

- make enquiries of management to obtain knowledge of related parties and related party transactions that management has identified;
- make enquiries of management to confirm that all known related party transactions have been measured and disclosed in accordance with generally accepted accounting principles;
- be alert for unidentified related parties and related party transactions when performing other procedures during the audit; and
- obtain written representation from management.

The Section also:

- requires the auditor to perform additional procedures when he or she assesses both inherent risk and combined inherent and control risk concerning related parties and related party transactions as greater-than-low and, in an Appendix, sets out examples of audit procedures for the auditor to consider;
- provides examples of circumstances the auditor may encounter when performing audit procedures for other audit objectives that could indicate the possibility of undisclosed related parties and related party transactions; and
- requires the auditor to ensure that the audit committee or its equivalent is informed of any identified related party transaction which is not in the normal course of operations and which involves significant judgments by management.

The new Recommendations are effective for engagements to report on financial statements or financial reports relating to periods commencing on or after April 1, 1999.

PUBLIC SECTOR ASSURANCE RECOMMENDATIONS

In conjunction with the transfer of responsibility for public sector assurance standards to the Assurance Standards Board (ASB) from the Public Sector Accounting and Auditing Board (PSAAB), the following new Sections have been transferred from the Public Sector Accounting and Auditing Handbook to the CICA Handbook – Assurance:

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

This Section describes some of the special circumstances that may apply to the audits of public sector entities undertaken by legislative and other external auditors.

Audit of financial statements of federal, provincial and territorial governments, Section PS 5200

This Section provides guidance on the application of GENERALLY ACCEPTED AUDITING STANDARDS, Section 5100 to audits of financial statements of federal, provincial and territorial governments.

Auditing for compliance with legislative and related authorities in the public sector, Section PS 5300

This Section provides guidance for auditors who are engaged or required to:

- express an opinion on whether an entity complied with specified authorities or whether its transactions were carried out in compliance with specified authorities;
- express an opinion on whether the transactions that have come to their notice in the course of discharging their other audit responsibilities were carried out in compliance with specified authorities; or
- report instances of non-compliance with authorities observed in the course of discharging their audit responsibilities.

Value-for-money auditing in the public sector, Section PS 5400

This Section sets out standards for auditors engaged in value-for-money auditing. The Section recommends that the auditor follow the general and performance standards in STANDARDS FOR ASSURANCE ENGAGEMENTS, Section 5025, and recommends the content of the auditor's report under the following circumstances:

- when expressing an opinion with respect to an entity or portion thereof, and
- when reporting observed deficiencies.

Planning value-for-money audits in the public sector, Section PS 6410

This Section identifies and describes the key elements of planning a value-for-money audit. It discusses considerations related to the following elements of audit planning: the audit mandate, knowledge of the entity, audit objectives and scope, criteria, audit evidence and the audit plan.

Knowledge of the audit entity in planning value-for-money audits in the public sector, Section PS 6420

This Section provides guidance on obtaining the knowledge of the audit entity and its environment necessary to plan a value-for-money audit. It describes the major features of the audit entity and its environment, and their interrelationships, that the auditor needs to understand to adequately plan a value-for-money audit.

Engaging and using specialists in value-for-money audits in the public sector, Section PS 6430

This Section provides guidance on circumstances when the auditor engages and uses specialists in a value-for-money audit. It deals with:

- assessing the knowledge, proficiency and objectivity of the specialist relative to the audit;
- documenting the terms of the engagement and the other matters pertaining to the specialist's involvement;
- assessing the quality and results of the specialist's work; and
- reporting issues pertaining to the specialist's involvement in the audit.

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