

## **CICA handbook accounting and auditing revisions release no. 74 May 1992**

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### **ACCOUNTING GUIDELINES**

#### **Introduction**

The Introduction is amended to reflect the replacement in 1991 of the Accounting Standards Committee by the Accounting Standards Board.

### **EIC ABSTRACTS**

#### **Introduction**

The Introduction is amended to reflect the replacement in 1991 of the Accounting Standards Committee by the Accounting Standards Board.

#### **Preferred shares whose redemption is outside of the control of the issuer (EIC-13)**

Correction to cross-references on February 25, 1992

#### **Adjustments to the purchase equation subsequent to the acquisition date (EIC-14)**

Clarification on February 25, 1992

#### **Accounting for discontinued operations subsequently retained (EIC-35)**

Issued on February 25, 1992

#### **Accounting for government funding to non-profit organizations (EIC-36)**

Issued on February 25, 1992

#### **Phantom stock option plans (EIC-37)**

Issued on February 25, 1992

### **AUDITING RECOMMENDATIONS**

#### **Audit of accounting estimates, Section 5305**

Amended to reflect the terminology and Recommendations in revised Sections 5200 to 5220, on internal control in the context of an audit which were issued in March 1992.

Amended paragraph 5305.03 to change the references to "policies and procedures for the preparation of accounting estimates" from "a process for preparing accounting estimates and to establish controls over the preparation of accounting estimates," and to "These policies and procedures" from "The process for preparing accounting estimates."

#### **Audit evidence considerations when an enterprise uses a service organization, Section 5310**

Amended to reflect the terminology and Recommendations in revised Sections 5200 to 5220 issued in March 1992.

Amended the second sentence of paragraph 5310.03(b) to change the reference to "the auditor intends to assess control risk below maximum" from "the auditor intends to place reliance on internal controls."

Amended the third sentence of paragraph 5310.03(b) to change references to "internal control" from "internal controls" and to "adequate policies and procedures for the input" from "adequate controls over the input."

Amended the fifth sentence of paragraph 5310.03(b) to change the references to "internal control over payroll processing at the enterprise is inadequate" from "internal controls at the enterprise are inadequate," and to "policies and procedures for the output" from "controls over the output."

Also amended the last sentence of paragraph 5310.03(b) to change the reference to "internal control" from "internal controls."

Amended paragraph 5310.10(b) to change the reference to "assess control risk below maximum" from "place reliance on internal controls."

Amended paragraph 5310.11 to change the reference to "deviations from policies or procedures, or any errors" from "compliance deviations or errors."

#### **Using the work of a specialist, Section 5360**

Amended paragraph 5360.04(e) to change the reference to "other than auditing procedures" from "other than procedures."

#### **Reservations in the auditor's report, Section 5510**

Amended to reflect the terminology and Recommendations in revised Sections 5200 to 5220 issued in March 1992.

Amended Example M to change references to "deficiencies in internal control over inventory" from "deficiencies in the accounting records and in the system of internal control."

#### **Opinions on control procedures at a service organization, Section 5900**

Added footnote 1 to explain that this Section has not been amended to reflect the terminology in revised Sections 5200 to 5220 issued in March 1992.

#### **Accounts and notes receivable, Section 6020**

Amended to reflect the terminology and Recommendations in revised Sections 5200 to 5220 issued in March 1992.

Amended paragraph 6020.03 to change the reference to "sales, changes in personnel and changes in control systems" from "sales and changes in personnel or in accounting and control procedures."

Amended paragraph 6020.14 to change the reference to "shipping documents, and billing and inventory records" from "shipping documents and billing records, and stock control procedures."

#### **Inventories, Section 6030**

Amended to reflect the terminology and Recommendations in revised Sections 5200 to 5220 issued in March 1992.

Amended paragraph 6030.06 to change the reference to "of the application of policies and procedures including counts" from "of procedures and of counts," and to "the taking of physical inventories" from "the procedures of taking physical inventories."

Amended paragraph 6030.07 to change the reference to "if there is good internal control over inventories" from "if the accounting system provides a good internal control over the inventories."

#### **Subsequent events, Section 6550**

Amended to reflect the terminology and Recommendations in revised Sections 5200 to 5220 issued in March 1992.

Amended paragraph 6550.03(c) to change the reference to "the quality of the entity's internal control" from "the quality of the records and controls."

Also amended paragraphs 6550.01 and .03 to change the references to "his or her" from "his," to "he or she" from "he," to "entity" from "enterprise," and to "be satisfied" from "satisfy himself." Amended the italicized paragraph 6550.06 to change the references to "the auditor should" from "he should" and to "the procedures" from "his procedures."

#### **The auditor's involvement with prospectuses and other offering documents, Section 7100**

Amended to reflect the terminology and Recommendations in revised Sections 5200 to 5220 issued in March 1992.

Amended paragraph 7100.14(a) to change the reference to "making enquiries concerning control systems related" from "making enquiries concerning the accounting system as it relates."

Also amended paragraph 7100.14(b) to change the reference to "internal control since his last study of it" from "internal controls since his last study of them."

Amended the italicized paragraph 7100.15(d)(ii) to change the reference to "the internal control of the enterprise" from "the accounting and internal control systems of the enterprise."

Amended paragraph 7100.50 to delete the reference to "procedures for" in "introduced procedures for a prompt offering qualification system."

Amended paragraph 7100.54 to change the reference to "streamline the process" from "streamline the procedures."

#### **Reports on the application of accounting principles, auditing standards or review standards, Section 7600**

[SEPT. 1, 1992 \*]

New.

#### **General review standards, Section 8100**

Amended to reflect the terminology and Recommendations in revised Sections 5200 to 5220 issued in March 1992.

Amended paragraph 8100.06 to change the reference to "internal control" from "internal controls."

Amended paragraph 8100.18 to change the reference to "and its internal control" from "and the accounting and internal control systems."

#### **Reviews of financial statements, Section 8200**

Amended to reflect the terminology and Recommendations in revised Sections 5200 to 5220 issued in March 1992.

Amended paragraph 8200.02(b) to change the reference to "making enquiries concerning control systems related to" from "making enquiries concerning the accounting system as it relates to."

Amended Appendix A to change the reference to "emphasize that responsibility for" from "emphasize that control over and responsibility for."

#### **Compilations, Section 9200**

Amended Appendix to change the reference to "emphasize that responsibility for" from "emphasize that control over and responsibility for."

## **AUDITING AND RELATED SERVICES GUIDELINES**

### **Related party transactions and economic dependence (September 1980)**

Amended to reflect the terminology and Recommendations in revised Sections 5200 to 5220 issued in March 1992.

Amended paragraph 1 to change the reference to "adopting policies and procedures" from "adopting controls and procedures."

Amended paragraph 6(c) to change the reference to "internal control" from "internal controls."

### **Performance of a review of financial statements (August 1987)**

Amended to reflect the terminology and Recommendations in revised Sections 5200 to 5220 issued in March 1992.

Amended item 3 of "Knowledge of Business" in paragraph 5 to change the reference to "knowledge of control systems related to the preparation of financial statements" from "knowledge of the accounting system."

Amended item 3(b) of "Financial Statements Items" in paragraph 5 to change the reference to "policies and procedures" from "procedures."

### **Examination of a financial forecast or projection included in a prospectus or other offering document (September 1989)**

Amended to reflect the terminology and Recommendations in revised Sections 5200 to 5220 issued in March 1992.

Amended paragraph 28 to change the reference to "The forecasting process may include policies and procedures the effectiveness of which the public accountant may wish to evaluate for the purpose of his or her examination." from "The forecasting process may include systems and procedures on which the public accountant wishes to place reliance for the purpose of his or her examination."

Also amended paragraph 28 to change the reference to "appropriate examination procedures to establish whether such policies and procedures were operating effectively." from "appropriate procedures to establish whether such reliance was justified."

### **Applying materiality and audit risk concepts in conducting an audit (March 1990)**

Amended to reflect the terminology and Recommendations in revised Sections 5200 to 5220 issued in March 1992.

Amended paragraphs 17, 21, 23, 27 and 35 to change the references to "internal control" from "internal controls" or "controls."

Amended paragraph 17 to change the reference to "specific account balances or classes of transactions" from "specific account balances and classes of transactions."

Amended paragraph 19 to change the reference to "circumstances that might predispose management" from "the objectives and quality of management, with particular reference to whether circumstances exist that might predispose management."

Amended paragraph 21 to retain only the first sentence.

Replaced paragraph 22 with "Assessing control risk is the evaluation of the effectiveness of policies and procedures in preventing or detecting material misstatements in financial statement assertions. Guidance on assessing control risk and documenting the assessments is set out in INTERNAL CONTROL IN THE CONTEXT OF AN AUDIT, Section 5210."

Amended the first sentence of paragraph 24 by adding "assuming the auditor's assessments of risk range from high to low." Also amended paragraph 24 to change the reference to "non-numerical terms" from "non-quantitative terms."

Also amended the footnote to paragraph 24 to change the reference to "policies and procedures" from "internal controls."

Amended the first sentence of paragraph 27 to change the reference to "financial statement assertions" from "each relevant financial statement assertion."

### **Communications with audit committees (or equivalent) (August 1991)**

Amended to reflect the terminology and Recommendations in the revised Sections 5200 to 5220 issued in March 1992.

Amended paragraph 14(f) to reflect the March 1992 revision to Examination standard (ii) of GENERALLY ACCEPTED AUDITING STANDARDS, Section 5100.

Amended paragraph 15(d) to change the reference to "internal control" from "internal controls" and to "an evaluation of internal control sufficient for expressing an opinion about its effectiveness" from "an evaluation of the systems sufficient for expressing an opinion about the adequacy of their design and operation."

Amended paragraph 16 to change the reference to the revised Section 5220 issued in March 1992 and to change the quotation in paragraph .01 to "As a result of the auditor's consideration of internal control and other auditing procedures, he or she" from "As a result of his study and evaluation of internal control and other auditing procedures, the auditor."

### **Special reports on regulated financial institutions (May 1992)**

Issued.

## **EDP AUDITING GUIDELINES**

### **Introduction to EDP Auditing Guidelines**

Amended to note that these guidelines other than Addendum 1 to ISA 6 include terminology concerning internal control that is different from that used in the *CICA Handbook*.

**Risk assessment and internal control — EDP characteristics and considerations (Addendum 1 to ISA 6) (May 1992)**

Replaced the April 1989 Guideline on The effects of an EDP environment on the study and evaluation of the accounting and related internal controls (IAG 20) (April 1989)

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