

CICA handbook – assurance highlight summary no. 19 April 2004

HIGHLIGHT SUMMARY

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

The majority of practitioners now access the electronic version of the CICA Handbook – Assurance rather than the paper version. Therefore, the AASB now regards the electronic Handbook as the official version of approved material. The effect of this change is that, unless the AASB decides otherwise in a particular circumstance, the effective date of Recommendations (noted beside each Recommendation) is the first day of the month following their publication in the electronic Handbook.

Audit of financial statements — an introduction, Section 5090

This Section has been amended to eliminate references to the assumption of management's good faith. It also includes new guidance dealing with the auditor's attitude in dealing with the honesty and integrity of management and those charged with governance.

The auditor's responsibility to consider fraud and error, Section 5135

This Section has been revised to incorporate ISA 240, "The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements" into the Handbook with as few changes as possible to adapt to Canadian circumstances. The IAASB has stated that ISA 240 has been revised to incorporate the basic principles and essential procedures of the American Institute of Certified Public Accountants' Statement on Auditing Standards (SAS) 99.

The following are the principal changes to this Section:

- more emphasis on the respective responsibilities of auditors, management, and those charged with governance with respect to fraud;
- significantly more guidance on assessing the risks of misstatement due to fraud, including requirements to make enquiries of management and others within the entity, and understanding the role of those charged with governance;
- discussion of earnings management;
- significantly more emphasis on management's ability to override internal controls and management fraud generally;
- classification of fraud risk factors into factors relating to incentive to commit fraud, opportunity to commit fraud and the ability to rationalize the fraudulent act;
- requiring procedures to be performed to address management's ability to override internal controls; in particular, requiring the testing of journal entries, reviewing accounting estimates for bias and understanding the business rationale for significant transactions outside the normal course of business; and
- requiring procedures to be performed to address the presumed risk of improper revenue recognition.

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, 2004.

Reports on the application of accounting principles, Section 7600

This Section has been revised to reflect the following changes:

- prohibition of engagements to report on the application of accounting principles to a hypothetical transaction; and
- exclusion from the scope of the Section of an engagement to provide an entity with a written report or oral advice on the application of accounting principles to a specific transaction, when the public accountant is asked to assist an entity with its responsibility to prepare its financial statements in accordance with generally accepted accounting principles and the entity has not already obtained guidance from its incumbent accountant on this matter.

New guidance is provided on:

- oral advice, including illustrative examples of questions for a practitioner to consider in determining if he or she is providing oral advice, and situations a practitioner may encounter when an entity requests oral advice;
- the type of opinion that may be rendered on a specific entity's financial statements; and

- the inclusion of a separate paragraph, at the end of the report, that indicates that the report is intended solely for the information and use of specified parties, identifies the parties to whom use is restricted, and indicates that the report is not intended to be, and should not be, used by anyone other than the specified parties, or for any other purpose.

Guidance has been removed on:

- reports requested by third parties relating to specific transactions; and
- reports on the application of auditing standards and review standards.

The Recommendations in the revised Section apply to reports dated on or after May 1, 2004.

[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.