

The Canadian Institute of Chartered Accountants
277 Wellington Street West
Toronto, Ontario Canada M5V 3H2
Tel: 416 977.3222 Fax: 416 977.8585
www.cica.ca

L'Institut Canadien des Comptables Agréés
277, rue Wellington Ouest
Toronto (Ontario) Canada M5V 3H2
Tél. : 416 977.3222 Téléc. : 416 977.8585
www.icca.ca



What's New

Update #39
November 2007

To: Subscribers of the Professional Engagement Manual – Update #39

Dear Colleagues:

Enclosed is Update #39 to the **CICA Professional Engagement Manual**. This update contains many important changes and renumbering of the sample audit forms. This renumbering reflects a reorganization of the forms in response to comments from PEM subscribers. The update also includes a new chapter that addresses the audit of a small not-for-profit entity.

Highlights of the update include:

Chapter 10.1 – Audit of Small Not-For-Profit Entities

This chapter summarizes some of the main aspects of performing a risk-based audit for a small not-for-profit entity.

Practice Aids – Sample Forms

For ease of reference, we have attached a list of the audit and review engagement forms that have been updated and/or renumbered in this update. Some of the more important changes include:

Audit Forms

300-399 Completion Documents

- 310 Checklist – Audit completion
This revised audit completion checklist replaces former checklists 312 and 501.
- 340 Reportable & other audit findings
This is a new form to document matters (such as material weaknesses in internal control) that are required to be reported to management and those charged with governance (Sections 5750 and 5751).
- 345 Worksheet – Extracts from minutes. (Renumbered from 360).

400-499 Planning

All the major planning forms (other than Form 606 – Detailed audit response) are now together in one section entitled *Planning*, including:

- 400 Overall audit strategy (Revised and renumbered from 602)
- 402 Worksheet – Team planning meeting (Renumbered from 550)
- 403 Worksheet – Scoping – Identifying FSAs and underlying business processes (Renumbered from 506)
- 405 New engagement – Acceptance

- 407 New engagement — Checklist (Renumbered from 425)
- 410 Existing engagement — Continuance
- 440 Worksheet — Assistance requested from management
- 450 Worksheet — Preliminary time budget

This section of the working file would also contain the engagement letter, independence letters and any planning memorandums sent to the audit committee or management.

500-599 Risk Assessment

- 500 Guide to risk assessment forms
This form provides a road map and some basic instructions on how to complete the risk assessment phase of an audit using the PEM forms.
- 530 Entity level controls and 532 IT general controls
These forms have been consolidated to include not only a description of the controls but also the evaluation of control design and implementation.
- 535 Worksheet — Walkthrough procedures (Renumbered from 560)
This form has been revised slightly.
- Control design matrices 568-580
The “control risk” matrices 568-580 have been renamed “control design” matrices to reflect the forms’ primary purpose. At the bottom of each matrix, a new row has been added where the auditor can conclude whether the control procedures identified have (in his/her opinion) mitigated the risk factor being addressed.
- 566 Control design matrix — Small entity
This new form is a simplified control design matrix that can be used for very small audit engagements. It does not include certain information that would be necessary for larger engagements.
- 590 Summary of assessed risks
This form was originally entitled “combined risk assessment”. Form 590 is used to summarize the auditor’s assessment of inherent and control risks, which is based on the results of performing risk assessment procedures. This form becomes the starting point for developing an appropriate audit response (further audit procedures). A new introductory paragraph on the form outlines how the form is to be used.

600-699 Response to Assessed Risks

- 606 Worksheet — Detailed audit response
This form and the entire .100 series of detailed planning forms (A-Z and AA-ZZ) have been simplified. The purpose of evidence points is to provide guidance to the auditor where there is a choice between the types of audit procedures to be performed. In many small engagements, however, the basic procedures for a particular assertion are often enough in themselves to reduce audit risk to the appropriate level for low risk assertions. For moderate and higher risk assertions, the basic procedures will be supplemented by extended or specific procedures. In these straightforward situations, the auditor can now just check off (with a tick mark) the types of procedures to be performed without having to consider the appropriate mix of audit evidence using evidence points.

A-Z and AA-ZZ Audit Plans & Procedures

- The financial statement presentation and disclosure checklists have been updated to reflect financial instruments and other recent changes in accounting standards disclosure. These changes are also reflected in the review engagement forms.

Model Financial Statements—General Purpose for SBEs

Developed by the Professional Expertise Committee of the Ordre des comptables agréés du Québec, this value-added PEM resource provides practical guidance for the preparation of financial statements for SBEs, including references to the *CICA Handbook* as well as notes and exhibits that apply to a wide range of situations.

Print subscribers will receive a PDF of the Model Financial Statements on a CD to be mailed separately from this update. For electronic subscribers, the PDF is included in Part F — Practice Aids.

Model Financial Statements—Two Valuable Practice Aids

Designed to apply to a wide range of situations and to provide examples of the various financial statement disclosure and presentation options offered by the professional standards, the CICA's Model Financial Statements publications and accompanying CD are designed to guide public accountants in the performance of their engagements.

- **Model Financial Statements — General Purpose for SBEs** is available in a booklet and includes *Word files* on a CD-ROM so that you can customize the financial statements.
- **Model Financial Statements — Not-for-Profit Organizations** includes several sets of financial statements, accompanying notes and comments. The booklet includes *Word files* on a CD-ROM so that you can customize the financial statements.

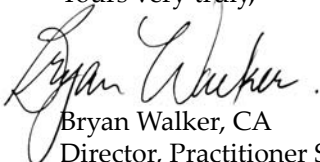
For more information and to order, visit the CICA's online bookstore at www.knotia.ca/store

We Welcome Your Comments

After a 35-year distinguished career at CICA, Peter Hoult, CA has decided to retire. The CICA extends its thanks to Peter for his leadership in developing the PEM over the past several years. The CICA is pleased to announce Bryan Walker, CA has assumed the responsibility of the PEM as Director — Practitioner Support along with his continuing responsibilities for the development of other assurance-based technical products and services.

We hope that the PEM continues to meet your practice needs. We appreciate hearing from our subscribers and will continue to respond to your valued comments and suggestions. Please send your comments to my attention by mail, e-mail bryan.walker@cica.ca or fax (416) 204-3414.

Yours very truly,



Bryan Walker, CA
Director, Practitioner Support
Member Services

Professional Engagement Manual

PEM Update #39—Sample Forms

For ease of reference, this document lists the audit and review engagement forms that have been updated and/or renumbered in PEM Update #39.

AUDIT FORMS

001 Audit engagement file index [Sample]

100 Report transmittal

300 – 399 COMPLETION DOCUMENTS

310 Checklist – Audit completion

315 Checklist – Financial statement presentation

320 Notes on significant decisions

330 Worksheet – Matters for discussion with management

340 Reportable and other audit findings [NEW]

345 Worksheet – Extracts from minutes

400 – 499 PLANNING

400 Overall audit strategy

402 Worksheet – Team planning meeting

403 Worksheet – Scoping – Identifying FSAs and underlying business processes

405 New engagement – Acceptance

407 New engagement – Checklist

410 Existing engagement – Continuance

440 Worksheet – Assistance requested from management

450 Worksheet – Preliminary time budget

500 – 599 RISK ASSESSMENT

500 Guide to risk assessment forms

504 Materiality

510 Understanding the nature of the entity

520 Risk register – Business/operating

522 Risk register – Fraud

524 Worksheet – Analytical procedures

526 Worksheet – Risk assessment procedures

530 Entity level controls

532 IT general controls

535 Worksheet – Walkthrough procedures

566 Control design matrix – Small entity [NEW]

568 Control design matrix – Blank

570 Control design matrix – F/S preparation

572 Control design matrix – Payroll

574 Control design matrix – Revenues

576 Control design matrix – Receivables, receipts

578 Control design matrix – Purchases, payables, payments

582 Worksheet – Identified internal control weaknesses

590 Summary of assessed risks

600 – 699 RESPONSE TO ASSESSED RISKS

606 Worksheet – Detailed audit response

PEM Update #39—Sample Forms
A – Z AUDIT PLANS & PROCEDURES
<i>A. 100</i> Cash – Detailed audit response
<i>A. 105</i> Cash – Audit procedures
<i>B. 100</i> Investments – Detailed audit response
<i>B. 105</i> Investments – Audit procedures (Differential reporting)
<i>B. 115</i> Investments – Audit procedures
<i>C. 100</i> Accounts receivable, trade and other – Detailed audit response
<i>C. 105</i> Accounts receivable, trade and other – Audit procedures
<i>D. 100</i> Inventory – Detailed audit response
<i>D. 105</i> Inventory – Audit procedures
<i>E. 100</i> Loans and advances receivable – Detailed audit response
<i>E. 105</i> Loans and advances receivable – Audit procedures
<i>L. 100</i> Prepaid expenses and other assets – Detailed audit response
<i>N. 100</i> Long-term investments – Detailed audit response
<i>N. 105</i> Long-term investments – Audit procedures
<i>U. 100</i> Property, plant and equipment – Detailed audit response
<i>U. 105</i> Property, plant and equipment – Audit procedures
<i>W. 100</i> Deferred charges, intangibles and goodwill – Detailed audit response
<i>W. 105</i> Deferred charges, intangibles and goodwill – Audit procedures
AA – ZZ AUDIT PLANS & PROCEDURES – LIABILITIES & EQUITY
<i>AA. 100</i> Bank indebtedness – Detailed audit response
<i>AA. 105</i> Bank indebtedness – Audit procedures
<i>BB. 100</i> Notes payable and bank debt – Detailed audit response
<i>CC. 100</i> Accounts payable and accrued liabilities – Detailed audit response
<i>FF. 100</i> Income taxes – Detailed audit response
<i>GG. 100</i> Loans and advances payable – Detailed audit response
<i>KK. 100</i> Long-term debt – Detailed audit response
<i>KK. 105</i> Long-term debt – Audit procedures
<i>UU. 100</i> Equity – Detailed audit response
<i>UU. 105</i> Equity – Audit procedures (Partnership)
<i>UU. 110</i> Equity – Audit procedures (Share capital)
700 – 750 AUDIT PLANS & PROCEDURES – INCOME STATEMENT
<i>700</i> Revenues – Detailed audit response
<i>720</i> Cost of sales – Detailed audit response
<i>730</i> Payroll and other expenses – Detailed audit response
SAMPLE COMPLETED FORMS
<i>400C</i> Overall audit strategy
<i>403C</i> Worksheet – Scoping – Identifying FSAs and underlying business processes
<i>520C</i> Risk register – Business/operating
<i>522C</i> Risk register – Fraud
<i>526C</i> Worksheet – Risk assessment procedures
<i>530C</i> Entity level controls
<i>535C</i> Worksheet – Walkthrough procedures
<i>574C</i> Control design matrix – Revenues
<i>700C</i> Revenues – Detailed audit response
<i>705C</i> Revenues – Audit procedures

PEM Update #39 – Sample Forms
REVIEW ENGAGEMENT FORMS
001 Review engagement file index [Sample]
100 Report transmittal
A – Z REVIEW ENGAGEMENT PROCEDURES – ASSETS
A. 105 Cash – Review procedures
B. 105 Investments – Review procedures (Differential reporting)
B. 115 Investments – Review procedures
C. 105 Accounts receivable, trade and other – Review procedures
D. 105 Inventory – Review procedures
E. 105 Loans and advances receivable – Review procedures
N. 105 Long-term investments – Review procedures
U. 105 Property, plant and equipment – Review procedures
W. 105 Deferred charges, intangibles and goodwill – Review procedures
AA – ZZ REVIEW ENGAGEMENT PROCEDURES – LIABILITIES AND EQUITY
AA. 105 Bank indebtedness – Review procedures
KK. 105 Long-term debt – Review procedures
UU. 105 Equity – Review procedures (Partnership)
UU. 110 Equity – Review procedures (Share capital)

Customize the PEM practice aids!

CICA Electronic PEM Templates – Checklists, Forms & Sample Letters

Available through Knotia or on DVD, the *CICA Electronic PEM Templates* package includes a Word or Excel template of each of the checklists, forms and sample letters that are included in the PEM. These templates allow you to customize these practice aids to meet the needs of individual engagements as well as complete them on a PC.

Just \$150 for an annual subscription, the templates package is only available to individuals or firms with a current subscription to the PEM.

For more information and to order, visit www.knotia.ca/store/pemtpl