

Practitioner Alert

CANADIAN STANDARDS ON QUALITY MANAGEMENT

MAY 2022

Standards Discussed:

- Canadian Standard on Quality Management (CSQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*
- CSQM 2, *Engagement Quality Reviews*
- Canadian Auditing Standard (CAS) 220, *Quality Management for an Audit of Financial Statements*.

Quality Management – The Final Pieces

In March 2022, the Auditing and Assurance Standards Board (AASB) approved quality management conforming amendments to Other Canadian Standards ('OCS', i.e., standards in the *CPA Canada Handbook – Assurance* for engagements other than audits). The AASB made these conforming amendments to assist practitioners in applying the new quality management standards at the engagement level.

The issuance of the quality management conforming amendments to OCS in the *CPA Canada Handbook – Assurance* in May 2022, completes a multi-year project to improve the practitioner's management of risk and quality on engagements.

Background

The project began in 2015 with the International Auditing and Assurance Standards Board's (IAASB) Invitation to Comment, "Enhancing Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits." The IAASB considered input on the Invitation to Comment in revising existing quality control standards.

In September 2020, the IAASB approved the new and revised suite of quality management standards. The AASB followed in January 2021.

The quality management standards include:

- **Canadian Standard on Quality Management (CSQM 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.**

CSQM 1 takes a risk approach to quality management, requiring firms to develop a system of quality management that is adapted to the nature and circumstances of the firm and the engagements it performs. Firms are required to design and implement systems of quality management for audits or reviews of

financial statements or other assurance engagements **by December 15, 2022**. The AASB gave practitioners an additional year to **December 15, 2023**, to design and implement systems of quality management for related services engagements. CSQM 1 replaced Canadian Standard on Quality Control (CSQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements*.

- **CSQM 2, *Engagement Quality Reviews*.** CSQM 2 deals with the appointment and eligibility of an engagement quality reviewer and the engagement quality reviewer's responsibilities relating to the performance and documentation of an engagement quality review.
- **Canadian Auditing Standard (CAS) 220, *Quality Management for an Audit of Financial Statements*.** CAS 220 deals with the specific responsibilities of the auditor regarding quality management at the audit engagement level, and the related responsibilities of the engagement partner.

Because of the volume of material, the IAASB and AASB only focused on engagement-level quality management requirements for audits in the first phase of the project. After approving and issuing the quality management standards, both the IAASB and AASB issued follow-up Exposure Drafts. These Exposure Drafts proposed new and revised engagement-level quality management requirements and application and other explanatory material for standards for engagements other than audits.

Engagement-level Quality Management

To apply the firm's system of quality management at the engagement level, standards need to include requirements related to quality management. These include setting out how CSQM 1 applies to the engagement-level standard and the engagement partner's responsibilities for quality management at the engagement level.

The new suite of quality management standards at the firm and engagement level brings a significant number of changes for Canadian practitioners performing *any* engagement addressed by standards in the *CPA Canada Handbook – Assurance*. Read previously issued alerts for additional information:

- [New quality management suite of standards: Audit and assurance alert](#)
- [New quality management suite of standards: Practitioner alert](#)

Reviews and other assurance engagements were subject to CSQC 1. Therefore, standards addressing these engagements already included requirements related to quality control. The AASB made conforming amendments to these standards to:

- reflect the structure of, and concepts in, the quality management standards; and
- align with references and other terminology used in the quality management standards.

CSQC 1 did not apply to related services engagements. As a result, standards for related services engagements did not include any quality control requirements. Therefore, the AASB introduced new introductory material, requirements and application and other explanatory material. This material makes it clear to readers that CSQM 1 applies at the engagement level.

With these revisions, engagement partners and engagement teams will be able to apply their firms' systems of quality management at the engagement level.

Effective Dates

The effective dates of the engagement-level quality management requirements vary depending on the nature of the engagement, as follows.

- **Review and other assurance engagement standards.** The conforming amendments will generally be effective for engagements or periods beginning on or after December 15, 2022.
- **Related services engagements that are performed in conjunction with, or following, an audit, review or other assurance engagement.** The conforming amendments will be effective for engagements or periods beginning on or after December 15, 2022.
- **Other related services engagements, including compilation engagements and agreed-upon procedures engagements.** Practitioners have an extra year to align with the effective date of CSQM 1. For these engagements, the conforming amendments will be effective for engagements or periods beginning on or after December 15, 2023.

For details of effective dates, you should refer to the effective date paragraphs in each standard. Effective date paragraphs explain the effective date of conforming amendments in more detail.

Planning and Preparing

If you or your firm provide audit, review or other assurance services, you should be well on your way to developing your firm's system of quality management. Designing the system of quality management involves:

- reflecting on the nature and circumstances of your firm and the engagements you perform;
- considering where risks to achieving quality may arise; and
- developing responses to address those risks.

This is not a simple task and may take some time to complete. CPA Canada has developed, and is working on, several [implementation support resources](#) to assist you in completing this task.

- [New quality management suite of standards: Audit and assurance alert](#)
- [New quality management suite of standards: Practitioner alert](#)
- [Practitioner's pulse \(June 2021\): New suite of quality management standards](#)
- [Practitioner's Implementation Tool](#)

Feedback

If you have comments on this *Practitioner's Alert* or suggestions for future *Alerts*, please send them to:

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