

BASIS FOR CONCLUSIONS CANADIAN AUDITING STANDARD (CAS) 220, Quality Control for an Audit of Financial Statements and CANADIAN STANDARD ON QUALITY CONTROL (CSQC) 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements

September 2009

This Basis for Conclusions has been prepared by staff of the Auditing and Assurance Standards Board (AASB). It relates to, but does not form part of, Canadian Auditing Standard 220, *Quality Control for an Audit of Financial Statements*, and Canadian Standard on Quality Control 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements*.

Background

In August 2007, the International Auditing and Assurance Standards Board (IAASB) issued its Exposure Draft of International Auditing Standard (ISA) 220 (Redrafted), *Quality Control for an Audit of Financial Statements*, and International Standard on Quality Control (ISQC) 1 (Redrafted), *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements and Related Services Engagements* (ED-ISA 220 / ISQC 1). The IAASB approved final ISA 220 and ISQC 1 in September 2008 subject to confirmation by the Public Interest Oversight Board (PIOB) that due process was followed. This confirmation was received in December 2008.

In September 2007, the AASB issued its Exposure Draft (ED-CAS 220 / CSQC 1) to adopt:

- (a) proposed ISA 220 as CAS 220 to replace Section 5030, **QUALITY CONTROL PROCEDURES FOR ASSURANCE ENGAGEMENTS** (to the extent that Section 5030 applies to audits of financial statements and other historical financial information); and
- (b) proposed ISQC 1 as CSQC 1 to replace GSF-QC, **GENERAL STANDARDS OF QUALITY CONTROL FOR FIRMS PROVIDING ASSURANCE SERVICES**.

There were 5 respondents to ED-CAS 220 / CSQC 1 (identified below).

The AASB approved CAS 220 and CSQC 1 in October 2008. The Auditing and Assurance Standards Oversight Council reviewed due process followed by the AASB in the development of this CAS and CSQC prior to their issuance in the CICA Handbook – Assurance.

Purpose of this Basis for Conclusions

This Basis for Conclusions has been prepared to make Canadian stakeholders aware of the following.

- (a) A Basis for Conclusions prepared by IAASB staff for ISA 220 and ISQC 1 is available on the IAASB web site, and provides information on how the IAASB dealt with comments received on significant matters in response to the ED-ISA 220 / ISQC 1.
- (b) Information on how the AASB dealt with significant matters arising from comments received in response to its ED-CAS 220 / CSQC 1 is also available. This information is set out below.

Significant Matters

AASB's Consideration of Amendments to ISA and ISQC 1 Wording

References to the International Federation of Accountants' Code of Ethics and IAASB Engagement Standards

1. CAS 220 and CSQC 1 contain amendments to the ISA and ISQC wording as proposed in the ED-CAS 220 / CSQC 1. No comments were received from respondents to the ED-CAS 220 / CSQC 1 indicating an objection to the amendments.
Effective Date of CSQC 1
2. While the CASs are effective for audits of financial statements for periods ending on or after December 14, 2010, systems of quality control in compliance with CSQC 1 are required to be established by December 15, 2009.
3. A respondent suggested that CSQC 1 not be implemented until the CASs become effective to avoid a gap in the standards. The AASB believes that an earlier effective date is appropriate for the following reasons.
 - (a) CSQC 1 must be in place when CAS 220 and the other CASs become effective.
 - (b) Firms that provide assurance services would already have a similar system of quality control in place to comply with GSF-QC.

- (c) CSQC 1 is not anticipated to conflict with the performance of an assurance engagement under the existing Canadian standards.

Date of Completion of Engagement Quality Control Review

4. A respondent requested that, for purposes of practicality, both ISA and CAS 220 should require the date of completion of the engagement quality control review to be on or before the date of issuance of the auditor's report. The IAASB carefully considered this matter and concluded that it would be inappropriate for the engagement quality control review to be completed after the date of the auditor's report. However, the IAASB felt that additional guidance would be useful to help auditors understand how to apply the standards using the date of the auditor's report as the date of completion for the engagement quality control review. Accordingly, in finalizing ISA 220 and ISQC 1, the IAASB included additional guidance in paragraphs A23-A25 of ISA 220 and A42-A44 of ISQC 1 to help auditors understand and deal with practical considerations relevant to the completion of an engagement quality control review by the date of the engagement report.

The AASB concurred with the IAASB's conclusions on this matter.

Terminology

5. A respondent suggested that the standards use terminology that is consistent with securities regulations in Canada. The AASB considered this matter and concluded that the proposed amendment would not be appropriate. The CASs and ISAs provide requirements and guidance that are not linked to compliance with any particular set of laws and regulations, and recognize that the auditor may need to consider terminology in laws and regulations relevant to the particular circumstances of the engagement.
6. A respondent suggested that the term "practitioner" be retained in CSQC 1 given widespread references in Canadian literature. CAS 220 deals only with audits, so use of the term "practitioner" would not be appropriate in that standard. CSQC 1 deals mainly with policies and procedures established by the firm, including the application of those policies and procedures by relevant personnel in the firm, so it would not be appropriate to use the term practitioner throughout CSQC 1.

Definition of the Engagement Team

7. A respondent also suggested that network personnel and experts who work on the engagement should be part of the engagement team. CSQC 1 defines the engagement team as "All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes external experts engaged by the firm or a network firm." Therefore, network personnel are part of the engagement team. Only external experts who are engaged, but not employed, by the firm or network firm are excluded from the definition of the engagement team. The exclusion of external experts from the engagement team is appropriate as not all external experts can, for example, be obligated to comply with the requirements of a firm that does not employ them. Requirements and application material related to dealing with auditor's experts are contained in CAS 620, *Using the Work of an Auditor's Expert*.

Other Matters

Scope of CSQC 1

8. The scope of CSQC 1 is narrower than that of ISQC 1. CSQC 1 applies to audits and reviews of financial statements and other assurance engagements. ISQC 1 applies to audits and reviews of financial statements and other assurance and related services engagements. The scope of CSQC 1 is consistent with that of GSF-QC. This difference in scope was indicated in the ED-CAS 220 / CSQC 1 and all respondents agreed with the AASB's position on this matter. Further, this difference in scope is made apparent in the CSQC 1, which includes boxed text to make readers aware of the difference in scope and to refer readers to the *Preface* where this difference is explained.

Retention of Section 5030

9. Section 5030 will be retained in the Handbook. Its scope will be reduced so that it applies to assurance engagements other than those covered by CAS 220. That is, Section 5030 will cover audits of information other than historical financial information, and review engagements.

Partner Rotation Requirement

10. For audits of financial statements of listed entities, CSQC 1 requires "the rotation of the engagement partner and the individuals responsible for engagement quality control review, and where applicable, others subject to rotation requirements, after a specified period in compliance with relevant ethical requirements." This wording is somewhat more specific than the requirement in GSF-QC that the firm establish policies and procedures to address applicable ethical requirements where rotation of the practitioner and others is prescribed. However, there is no difference, in substance, between the requirements in CSQC 1 and GSF-QC. Both standards refer to compliance with relevant ethical requirements. For example, both CSQC 1 and GSF-QC recognize that under current ethical requirements for chartered accountants, a firm may choose not to require rotation of senior personnel responsible for audits of listed entities with less than \$10 million in market capitalization and total assets.
11. Under CSQC 1, GSF-QC and the applicable ethical requirements, the firm must always establish policies and procedures (which may or may not involve rotation of senior personnel) to effectively deal with a familiarity threat.

List of Respondents to ED-CAS 220 / CSQC 1

BDO Dunwoody LLP
Canadian Public Accountability Board
Deloitte & Touche LLP
KD Wray Professional Corporation
Provincial Auditor Saskatchewan

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