

Canadian Standards on Quality Management

BASIS FOR CONCLUSIONS 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

May 2022

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, the following Other Canadian Standards (OCSs) and Guidelines:

- Canadian Standard on Assurance Engagements ([CSAE](#) 3000, *Attestation Engagements Other than Audits or Reviews of Historical Financial Information*)
- [CSAE 3001](#), *Direct Engagements*
- [CSAE 3410](#), *Assurance Engagements on Greenhouse Gas Statements*
- [CSAE 3416](#), *Reporting on Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting*
- [CSAE 3530](#), *Attestation Engagements to Report on Compliance*
- [CSAE 3531](#), *Direct Engagements to Report on Compliance*
- Canadian Standard on Association [5000](#), *Use of the Practitioner's Communication or Name*
- AN AUDIT OF INTERNAL CONTROL OVER FINANCIAL REPORTING THAT IS INTEGRATED WITH AN AUDIT OF FINANCIAL STATEMENTS, Section [5925](#)
- Canadian Standard on Review Engagements ([CSRE](#) 2400, *Engagements to Review Historical Financial Statements*)
- Canadian Standard on Related Services ([CSRS](#) 4200, *Compilation Engagements*)
- [CSRS 4400](#), *Agreed-upon Procedures Engagements*
- [CSRS 4460](#), *Reports on Supplementary Matters Arising from an Audit or a Review Engagement*
- AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS, Section [7060](#)
- AUDITOR'S CONSENT TO THE USE OF A REPORT OF THE AUDITOR INCLUDED IN AN OFFERING DOCUMENT, Section [7150](#)
- AUDITOR'S CONSENT TO THE USE OF THE AUDITOR'S REPORT IN CONNECTION WITH A DESIGNATED DOCUMENT, Section [7170](#)
- AUDITOR ASSISTANCE TO UNDERWRITERS AND OTHERS, Section [7200](#)
- REPORTS ON THE APPLICATION OF ACCOUNTING PRINCIPLES, Section [7600](#)
- ASSURANCE AND RELATED SERVICES GUIDELINE ([AuG](#)) 6, *Examination of a Financial Forecast or Projection Included in a Prospectus or Other Public Offering Document*
- [AuG-50](#), *Conducting a Performance Audit in the Public Sector in Accordance with CSAE 3001*

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 the International Auditing and Assurance Standards Board (IAASB) staff for "Conforming and Consequential Amendments to the IAASB's Other Standards as a Result of the New and Revised Quality Management Standards," available on the IAASB website. The IAASB's Basis for Conclusions includes the key public interest issues the IAASB identified in its project proposal and how the IAASB dealt with comments it received in response to its Exposure Draft, "Conforming and Consequential Amendments to the IAASB's Other Standards as a Result of the New and Revised Quality Management Standards," issued in February 2021.
- (b) Information on how the AASB dealt with significant matters arising from comments received in response to its Exposure Draft, "Quality Management – Conforming Amendments to Other Canadian Standards" (ED-QM). This information is set out below.

Background

The IAASB's Quality Management Standards

In September 2020, the IAASB approved the following quality management standards:

- International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (formerly International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*);
- ISQM 2, *Engagement Quality Reviews*;
- International Standard on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements*; and
- related conforming amendments to other ISAs.

In February 2021, the IAASB issued its Exposure Draft of proposed conforming and consequential amendments to other international standards (other than the ISAs). At its October 2021 meeting, the IAASB approved the final conforming and consequential amendments to its other international standards. At its December 2021 meeting, the Public Interest Oversight Board confirmed that the IAASB followed due process.

Quality Management Standards in Canada

In January 2021, the AASB approved the following quality management standards:

- [CSQM 1](#), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (formerly CSQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements*);
- [CSQM 2](#), *Engagement Quality Reviews*;
- Canadian Auditing Standard ([CAS](#)) 220, *Quality Management for an Audit of Financial Statements*; and
- related conforming amendments to other CASs.

Since [CSQM 1](#) applies to all standards in the CPA Canada Handbook – Assurance, the AASB needed to make conforming amendments to OCSs. In June 2021, the Board issued its ED-QM that proposed the following:

- For standards adopted from or based on international standards, the same conforming amendments the IAASB proposed in its Exposure Draft.
- For assurance standards not adopted from or based on international standards, conforming amendments to:
 - establish clearly that [CSQM 1](#) applies to the standard;
 - reflect the terminology change from "quality control" to "quality management"; and
 - update the titles of the new standards.
- For related services standards not adopted or based on international standards, the AASB determined the appropriate conforming amendments necessary to reflect the application of [CSQM 1](#) to these standards.

The scope of the quality management standards in Canada was expanded from that in CSQC 1 to include related services standards. Consequently, ED-QM proposed conforming amendments to all related services standards so that quality management requirements can be applied appropriately at the engagement level.

At its March 2022 meeting, the AASB approved the Quality Management Conforming Amendments to OCSs. The Auditing and Assurance Standards Oversight Council confirmed that the Board followed due process in the development of the Quality Management Conforming Amendments to OCSs prior to their issuance in the CPA Canada Handbook – Assurance (Handbook).

Public Interest Considerations

The IAASB and AASB both noted that it is in the public interest that all standards subject to quality management appropriately reflect the quality management requirements at the engagement level. Without such engagement-level requirements, the benefits of adopting a new approach to managing and achieving quality on engagements may not be recognized.

Significant Matters

Consistency of Quality Management Conforming Amendments Across all Standards

1. Consistent with the IAASB Exposure Draft, ED-QM proposed limited conforming amendments to Canadian standards adopted from, or based on, the international standards. These standards are [CSAE 3000](#), [CSAE 3001](#), [CSAE 3410](#) and [CSRE 2400](#).
2. The limited conforming amendments include revisions to the CSAEs and [CSRE 2400](#) 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.
3. Several respondents expressed concern with the limited conforming amendments proposed to [CSAE 3000](#) compared to the more substantial amendments made in [CAS 220](#). They were concerned that this inconsistency across standards may

incorrectly imply that the system of quality management is not as robust in CSAE 3000 as it is in CAS 220. They suggested that CSAE 3000 include the same quality management requirements as CAS 220.

4. When it adopted [CSAE 3000](#), the AASB was aware of the inconsistency with [CAS 220](#). This same inconsistency existed between International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, and International Standard on Auditing (ISA) 220, *Quality Control for an Audit of Financial Statements*. In developing ISAE 3000 (Revised), the IAASB consciously chose to have differing requirements from the ISAs with respect to many matters (i.e., not just quality control). This is because the market for these engagements is often fundamentally different from the market for financial statement audits.
5. A conforming amendments project does not involve reconsidering the scope, objectives, requirements, application or other explanatory material of a standard. Including expanded requirements dealing with quality management to [CSAE 3000](#) would go beyond the scope of a conforming amendments project. The AASB discussed this issue before approving ED-QM and concluded not to propose more extensive revisions to CSAE 3000.
6. [CSAE 3000](#) is adopted from ISAE 3000 (Revised). The AASB can only make revisions to CSAE 3000 that meet the AASB's criteria for amendment set out in the *Preface to the CPA Canada Handbook – Assurance*. These criteria set out the limited circumstances when the Board can amend international standards when adopting them as Canadian standards. These include amendments required to:
 - comply with Canadian legal and regulatory requirements; or
 - serve the Canadian public interest and maintain the quality of auditing and reporting in Canada when it believes there are circumstances particular to the Canadian environment.

The Board believes that adding requirements to [CSAE 3000](#) to align it more closely to [CAS 220](#) would not meet these criteria.

7. Therefore, the AASB has not made any additional revisions to [CSAE 3000](#).
Disclosure Requirement in [CSRS 4200](#) that the Firm Applies [CSQM 1](#)
8. ED-QM proposed that paragraph 30(m) of [CSRS 4400](#) include the following disclosure requirement from International Standard on Related Services (ISRS) 4400 (Revised), *Agreed-upon Procedures Engagements*:
The agreed-upon procedures report shall be in writing and shall include:
...
 - (m) A statement that the firm of which the practitioner is a member applies [CSQM 1](#), or other professional requirements, or requirements in law or regulation, that are at least as demanding as CSQM 1. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as CSQM 1
9. ED-QM proposed to add the same disclosure requirement from [CSRS 4400](#) to [CSRS 4200](#) and Section [7600](#) to meet the AASB's goal of consistency, where appropriate, across the related services standards.
10. ED-QM did not propose the disclosure requirement for the following related services standards:
 - (a) the 7000 series of standards (i.e., those standards dealing with capital market issues); and
 - (b) [CSRS 4460](#).

Engagements performed in accordance with these standards are performed in conjunction with an audit or a review engagement, to which [CSQM 1](#) already applies.

11. Therefore, the AASB concluded that the disclosure requirement is not necessary for these related services standards.
12. Some respondents to ED-QM raised concerns with the proposal to include the disclosure requirement in [CSRS 4200](#), noting the following:
 - The inconsistency of having the disclosure requirement in the compilation engagement report, but not in the audit report or the review engagement report, may lead to unintended consequences. For example, users may incorrectly believe that the practitioner has performed more work in the compilation engagement than in an audit engagement or a review engagement. As a result, users may place undue reliance on the compiled financial information.
 - A statement in the compilation engagement report that the firm applies [CSQM 1](#) is unnecessary. Application of CSQM 1 is implicit in the reference to [CSRS 4200](#) in the compilation engagement report. The same principle is followed in the CASs and [CSRE 2400](#), where application of CSQM 1 is implicit in the reference to the standards followed in the reports.
 - Introducing the phrase "practitioner who is not a professional accountant" in [CSRS 4200](#) is inconsistent with the definition of a "practitioner" in paragraph [15\(a\)](#) of CSRS 4200, which refers to a "professional accountant in public practice."
 - The disclosure requirement can be perceived as introducing a specific requirement for practitioners who are not professional accountants to apply law or regulation that is at least as demanding as [CSQM 1](#). This requirement may cause implementation challenges or even barriers to comply for practitioners who are not professional accountants as there are no laws or regulations in Canada that are at least as demanding as CSQM 1.

13. In response to feedback, the AASB reconsidered the ED-QM proposal to include the disclosure requirement in [CSRS 4200](#). In doing so, the Board considered whether:
 - basing the disclosure requirement in CSRS 4200 on the disclosure requirement in [CSRS 4400](#) continues to be appropriate; and
 - including the disclosure requirement would improve transparency of the practitioner's responsibilities in a compilation engagement.
14. The AASB decided not to include the proposed disclosure requirement in [CSRS 4200](#), as explained below.

Whether Basing the Disclosure Requirement in [CSRS 4200](#) on [CSRS 4400](#) Continues to Be Appropriate
15. The AASB first introduced the disclosure requirement in [CSAE 3000](#). Assurance engagements performed under CSAE 3000 are not always performed by a professional accountant. This is reflected in the definition of "practitioner" in this standard as "the individual conducting the engagement." The disclosure requirement for these engagements was included to provide transparency about the requirements that have been applied when the provider of the assurance service is not a professional accountant (e.g., CSAE 3000 refers to competent practitioners other than professional accountants in public practice, for example, engineers).
16. The definition of "practitioner" in [CSRS 4400](#) is consistent with the definition in [CSAE 3000](#). The disclosure requirement included in CSRS 4400 is intended to serve the same purpose as the disclosure requirement in CSAE 3000.
17. Paragraph [15\(a\)](#) of CSRS 4200, on the other hand, defines "practitioner" as a "professional accountant in public practice." It does not contemplate that a provider of a compilation engagement can be a non-accountant.
18. Therefore, the AASB concluded that basing the disclosure requirement in [CSRS 4200](#) on the disclosure requirement in [CSRS 4400](#) is not appropriate.

Whether Including a Requirement to Disclose Would Improve Transparency of the Practitioner's Responsibilities in a Compilation Engagement
19. The AASB recognized that including disclosure in the [CSRS 4200](#) practitioner's report improves transparency to users as it explains:
 - that the practitioner is required to apply [CSQM 1](#), or requirements that are at least as demanding; and
 - which quality management requirements are being applied, in particular if they are not [CSQM 1](#).However, the Board noted that practitioners' reports need to balance transparency to users with other considerations.
20. The AASB's view at the time of drafting [CSRS 4200](#) is that the user can look at CSRS 4200 to obtain a full understanding of the practitioner's work effort. There are many requirements in CSRS 4200, in addition to quality management, which are not disclosed in the report. The report is not intended to provide users with a full understanding of the practitioner's work effort on the engagement. Rather, it provides transparency around areas that are important to the user's understanding of the engagement (one example of which would be the level of assurance (i.e., none)).
21. The AASB also noted that there is a risk that increased transparency in a practitioner's report may negatively impact the user's ability to read and understand the report. Reasons included the following:
 - If quality management is disclosed in more detail in one report (i.e., the compilation report) than in other reports (i.e., the audit or the review engagement reports), this inconsistency may increase the risk of misinterpretation and misunderstanding by users.
 - Disclosing quality management in the practitioner's report needs to be considered on balance with all the other requirements to disclose in the report when considering the understandability for users.
22. Finally, the AASB recognized that since practitioners performing compilation engagements are professional accountants, the possibility of variation in quality management requirements other than [CSQM 1](#) is remote. Disclosing the specific quality management standards applied is not likely to provide users of the practitioner's report with additional relevant information.
23. Therefore, the AASB concluded not to include the disclosure requirement proposed in ED-QM in [CSRS 4200](#).

Disclosure Requirement in Section [7600](#) that the Firm Applies [CSQM 1](#)
24. Following the decision not to include the disclosure requirement in [CSRS 4200](#), the AASB revisited its proposal in ED-QM to include the same disclosure requirement in Section [7600](#).
25. The AASB noted that Section [7600](#) is written for a reporting accountant, defined as a public accountant. It does not contemplate application by a non-accountant.
26. Therefore, the AASB also decided not to include the disclosure requirement proposed in ED-QM in Section [7600](#).

AASB's Consideration of Canadian Amendments
27. The first sentence in paragraph A5 of ISRS 4400 (Revised) states that a jurisdiction that has not adopted ISQM 1 in relation to agreed-upon procedures engagements may set out requirements for quality management in performing such engagements.

28. Considering that ISQM 1 has been adopted as [CSQM 1](#) in Canada, the first sentence in paragraph A5 of ISRS 4400 (Revised) does not apply. As a result, ED-QM proposed to make a Canadian amendment to remove the first sentence of paragraph [CA5](#) of CSRS 4400. No respondent objected to the proposed amendment.

AASB's Re-exposure Considerations

29. In approving the conforming amendments, the AASB:
- made no new Canadian amendments to standards adopted from or based on international standards; and
 - did not revise the Canadian amendment to [CSRS 4400](#) that was set out in ED-QM.
30. Also, in approving the conforming amendments, the AASB decided not to include the disclosure requirement that ED-QM proposed to include in [CSRS 4200](#) and Section [7600](#).
31. The changes made to ED-QM involved removing proposed requirements. The AASB believes that it is unlikely that re-exposure would result in any new information that would change its decision on this matter. As a result, the Board concluded that re-exposure is not necessary.

List of Respondents to the Exposure Draft *

- BDO Canada LLP
- Provincial Auditor of Saskatchewan
- Office of the Auditor General of Canada
- Office of the Auditor General of Manitoba
- Office of the Auditor General of Alberta
- PwC
- CPA Québec

Summary of Participants in Consultations

Format	Large firms	SMPs	Public sector	Regulators	Academics	Provincial institutes / Ordre members
	Number of participants					
Video roundtable consultations	0	20	0	0	2	12

Footnotes

*. One other respondent to the Exposure Draft requested confidentiality.

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