

## CANADIAN AUDITING STANDARDS

### CAS 220

### quality management for an audit of financial statements

#### SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving *CAS 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*.

- A37. Possible actions that the engagement team may take to mitigate impediments to the exercise of professional skepticism at the engagement level may include:
- Remaining alert to changes in the nature or circumstances of the audit engagement that necessitate additional or different resources for the engagement, and requesting additional or different resources from those individuals within the firm responsible for allocating or assigning resources to the engagement.
  - Explicitly alerting the engagement team to instances or situations when vulnerability to unconscious or conscious auditor biases may be greater (e.g., areas involving greater judgment) and emphasizing the importance of seeking advice from more experienced members of the engagement team in planning and performing audit procedures.
  - Changing the composition of the engagement team, for example, requesting that more experienced individuals with greater skills or knowledge or specific expertise are assigned to the engagement.
  - Involving more experienced members of the engagement team when dealing with members of management who are difficult or challenging to interact with.
  - Involving members of the engagement team with specialized skills and knowledge or an auditor's expert to assist the engagement team with complex or subjective areas of the audit.
  - Modifying the nature, timing and extent of direction, supervision or review by involving more experienced engagement team members, more in-person oversight on a more frequent basis or more in-depth reviews of certain working papers for:
    - Complex or subjective areas of the audit;
    - Areas that pose risks to achieving quality on the audit engagement;
    - Areas with a fraud risk; and
    - Identified or suspected non-compliance with laws or regulations.
  - Setting expectations for:
    - Less experienced members of the engagement team to seek advice frequently and in a timely manner from more experienced engagement team members or the engagement partner; and
    - More experienced members of the engagement team to be available to less experienced members of the engagement team throughout the audit engagement and to respond positively and in a timely manner to their insights, requests for advice or assistance.
  - Communicating with those charged with governance when management imposes undue pressure or the engagement team experiences difficulties in obtaining access to records, facilities, certain employees, customers, vendors or others from whom audit evidence may be sought.

#### SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving *CAS 570, Going Concern*.

- A92. The engagement partner exercises professional judgment in identifying the areas of significant judgment made by the engagement team. The firm's policies or procedures may specify certain matters that are commonly expected to be significant judgments. Significant judgments in relation to the audit engagement may include matters related to the overall audit strategy and audit plan for undertaking the engagement, the execution of the engagement and the overall conclusions reached by the engagement team, for example:
- Matters related to planning the engagement such as matters related to determining materiality.
  - The composition of the engagement team, including:
    - Personnel using expertise in a specialized area of accounting or auditing;
    - The use of personnel from service delivery centers.
  - The decision to involve an auditor's expert, including the decision to involve an external expert.

- The engagement team's consideration of information obtained in the acceptance and continuance process and proposed responses to that information.
- The engagement team's risk assessment process, including situations where consideration of inherent risk factors and the assessment of inherent risk requires significant judgment by the engagement team.
- The engagement team's consideration of related party relationships and transactions and disclosures.
- Results of the procedures performed by the engagement team on significant areas of the engagement, for example, conclusions in respect of certain accounting estimates, accounting policies or going concern considerations.
- The engagement team's evaluation of the work performed by experts and conclusions drawn therefrom.
- In group audit situations:
  - The proposed overall group audit strategy and group audit plan;
  - Decisions about the involvement of component auditors, including how to direct and supervise them and review their work; and
  - The evaluation of work performed by component auditors and the conclusions drawn therefrom.
- How matters affecting the overall audit strategy and audit plan have been addressed.
- The significance and disposition of corrected and uncorrected misstatements identified during the engagement.
- The proposed audit opinion and matters to be communicated in the auditor's report, for example, key audit matters, or a "Material Uncertainty Related to Going Concern" paragraph. [Former paragraph 220.A92 retained in Archived Pronouncements.]

#### **SUPPLEMENT**

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving CAS 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*.

- A24. In particular, the firm's policies or procedures may require the firm or the engagement partner to take different actions from those applicable to personnel when obtaining an understanding of whether an individual from another firm:
- Has the appropriate competence and capabilities to perform the audit engagement. For example, the individual would not be subject to the firm's recruitment and training processes and therefore the firm's policies or procedures may state that this determination can be made through other actions such as obtaining information from the other firm or a licensing or registration body. Paragraphs 19 and A38 of CAS 600 contain guidance on obtaining an understanding of the competence and capabilities of component auditors.
  - Understands the ethical requirements that are relevant to the group audit engagement. For example, the individual would not be subject to the firm's training in respect of the firm's policies or procedures for relevant ethical requirements. The firm's policies or procedures may state that this understanding is obtained through other actions such as providing information, manuals, or guides containing the provisions of the relevant ethical requirements applicable to the audit engagement to the individual.
  - Will confirm independence. For example, individuals who are not personnel may not be able to complete independence declarations directly on the firm's independence systems. The firm's policies or procedures may state that such individuals can provide evidence of their independence in relation to the audit engagement in other ways, such as written confirmation.
- A25. When firm policies or procedures require specific activities to be undertaken in certain circumstances (e.g., consultation on a particular matter), it may be necessary for the firm's related policies or procedures to be communicated to individuals who are not personnel. Such individuals are then able to alert the engagement partner if the circumstance arises, and this enables the engagement partner to comply with the firm's policies or procedures. For example, in a group audit engagement, if a component auditor is performing audit procedures on the financial information of a component and identifies a difficult or contentious matter that is relevant to the group financial statements and subject to consultation<sup>25</sup> under the group auditor's policies or procedures, the component auditor is able to alert the group engagement team about the matter.
- A53. Information obtained during the acceptance and continuance process may assist the engagement partner in complying with the requirements of this CAS and making informed decisions about appropriate courses of action. Such information may include:
- Information about the size, complexity and nature of the entity, including whether it is a group audit, the industry in which it operates and the applicable financial reporting framework;
  - The entity's timetable for reporting, such as at interim and final stages;
  - In relation to group audits, the nature of the control relationships between the parent and its components; and
  - Whether there have been changes in the entity or in the industry in which the entity operates since the previous audit engagement that may affect the nature of resources required, as well as the manner in which the work of the engagement team will be directed, supervised and reviewed.

A54. Information obtained during acceptance and continuance may also be relevant in complying with the requirements of other CASs, as well as this CAS, for example with respect to:

- Establishing an understanding of the terms of the audit engagement, as required by CAS 210;31
- Identifying and assessing risks of material misstatement, whether due to error or fraud, in accordance with CAS 315 and CAS 240;32
- Understanding the group, its components and their environments, in the case of an audit of group financial statements in accordance with CAS 600, and directing, supervising and reviewing the work of component auditors;
- Determining whether, and how, to involve an auditor's expert in accordance with CAS 620; and
- The entity's governance structure in accordance with CAS 26033 and CAS 265.34

A60. Resources for an audit engagement are primarily assigned or made available by the firm, although there may be circumstances when the engagement team directly obtains resources for the audit engagement. For example, this may be the case when a component auditor is required by statute, regulation or for another reason to express an audit opinion on the financial statements of a component, and the component auditor is also appointed by component management to perform audit procedures on behalf of the group engagement team.<sup>35</sup> In such circumstances, the firm's policies or procedures may require the engagement partner to take different actions, such as requesting information from the component auditor, to determine whether sufficient and appropriate resources are assigned or made available.

A76. In an audit of group financial statements, when there are insufficient or inappropriate resources in relation to work being performed at a component by a component auditor, the engagement partner may discuss the matter with the component auditor, management or the firm to make sufficient and appropriate resources available.

A92. The engagement partner exercises professional judgment in identifying the areas of significant judgment made by the engagement team. The firm's policies or procedures may specify certain matters that are commonly expected to be significant judgments. Significant judgments in relation to the audit engagement may include matters related to the overall audit strategy and audit plan for undertaking the engagement, the execution of the engagement and the overall conclusions reached by the engagement team, for example:

- Matters related to planning the engagement such as matters related to determining materiality.
- The composition of the engagement team, including:
  - Personnel using expertise in a specialized area of accounting or auditing;
  - The use of personnel from service delivery centers.
- The decision to involve an auditor's expert, including the decision to involve an external expert.
- The engagement team's consideration of information obtained in the acceptance and continuance process and proposed responses to that information.
- The engagement team's risk assessment process, including situations where consideration of inherent risk factors and the assessment of inherent risk requires significant judgment by the engagement team.
- The engagement team's consideration of related party relationships and transactions and disclosures.
- Results of the procedures performed by the engagement team on significant areas of the engagement, for example, conclusions in respect of certain accounting estimates, accounting policies or going concern considerations.
- The engagement team's evaluation of the work performed by experts and conclusions drawn therefrom.
- In group audit situations:
  - The proposed overall group audit strategy and group audit plan;
  - Decisions about the involvement of component auditors, including how to direct and supervise them and review their work, including, for example, when there are areas of higher assessed risk of material misstatement of the financial information of a component; and
  - The evaluation of work performed by component auditors and the conclusions drawn therefrom.
- How matters affecting the overall audit strategy and audit plan have been addressed.
- The significance and disposition of corrected and uncorrected misstatements identified during the engagement.
- The proposed audit opinion and matters to be communicated in the auditor's report, for example, key audit matters, or a "Material Uncertainty Related to Going Concern" paragraph.

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## Footnotes

25. See paragraph 35.
  31. CAS 210, *Agreeing the Terms of Audit Engagements*, paragraph 9
  32. CAS 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*
  33. CAS 260, *Communication with Those Charged with Governance*
  34. CAS 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*
  35. CAS 600, paragraph 3
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