

BASIS FOR CONCLUSIONS CANADIAN STANDARD ON QUALITY MANAGEMENT (CSQM) 2, Engagement Quality Reviews

May 2021

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 Standard on Quality Management ([CSQM 2, Engagement Quality Reviews](#)).

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 International Standard on Quality Management (ISQM) 2, *Engagement Quality Reviews*, and related conforming amendments to International Standards on Auditing (ISAs) is available on the IAASB website. The IAASB Basis for Conclusions includes details on the key public interest issues the IAASB identified in its project proposal and how ISQM 2 addresses comments it received in response to its Exposure Draft.
- (b) Information on how the AASB dealt with significant matters arising from comments received in response to its Exposure Draft, "Quality Management at the Firm and Engagement Level, Including Engagement Quality Review" (ED-QM). This information is set out below.

Background

In February 2019, the IAASB issued four Exposure Drafts as follows:

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

The Quality Management Exposure Drafts were accompanied by the overall explanatory memorandum, "Quality Management at the Firm and Engagement Level, Including Engagement Quality Reviews," which provided background on the significant issues pervasive to the three proposed standards. It set out the IAASB's proposals regarding the effective date and the related implementation period for the three proposed standards, as well as the IAASB's planned implementation activities.

The IAASB approved final ISQM 2 and related conforming amendments to ISAs at its September 2020 meeting. This approval was subject to the Public Interest Oversight Board's confirmation that the IAASB followed due process. In December 2020, the IAASB received this confirmation.

In April 2019, the AASB issued its ED-QM. The Board proposed to adopt, subject to comments received on exposure, ISQM 1, ISQM 2 and ISA 220 (Revised), and related conforming amendments to other ISAs as:

- [CSQM \(formerly Canadian Standard on Quality Control \(CSQC\)\) 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*; and
- related conforming amendments to other CASs.

In total the AASB received five comment letters on the ED-QM.

During the ED-QM period, the AASB held several consultation sessions with various stakeholder groups seeking input on the ED-QM proposals. The Board held a webinar for stakeholders that summarized the main ED-QM proposals. The Board also performed one in-person workshop to field test certain requirements in the proposed standards. The input received from these activities helped inform the Board's response letter to the IAASB.

The AASB approved final [CSQM 2](#) and related conforming amendments to other CASs at its January 2021 meeting.

The Auditing and Assurance Standards Oversight Council confirmed that the AASB followed due process in the development of [CSQM 2](#), and related conforming amendments to other CASs prior to their issuance in the CPA Handbook – Assurance (Handbook).

Significant Matters

AASB's Consideration of Amendments to ISQM 2

International Ethics Standards Board for Accountants (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)

1. Paragraph [C13C\(c\)](#) of CSQM 2 contains an amendment to the reference in ISQM 2 to the IESBA Code. As proposed in the ED-QM, this reference has been replaced with a reference to relevant ethical requirements applicable in Canada. None of the respondents to the ED-QM objected to this amendment.
- Effective Date of [CSQM 2](#) for Related Services Engagements*
2. ISQM 2 is effective for audits and reviews of financial statements for periods beginning on or after December 15, 2022, and for other assurance and related services engagements beginning on or after December 15, 2022. As discussed in paragraphs 15–18 of the CSQM 1 Basis for Conclusions, the AASB amended the effective date of CSQM 1 as it applies to related services engagements. Systems of quality management for related services engagements are to be designed and implemented by December 15, 2023, which is one year later than for audits and reviews of financial statements and other assurance engagements. This resulted in a similar Canadian amendment to the effective date of CSQM 2 for related services engagements. CSQM 2 is effective for related services engagements for periods beginning on or after December 15, 2023. Paragraph [C11](#) of CSQM 2 contains the amendment to the effective date of ISQM 2.

AASB's Re-exposure Considerations

3. In approving [CSQM 2](#), the AASB considered whether to re-expose new or revised Canadian amendments. The deferral of the effective date of [CSQM 1](#) for related service engagements and the related deferral of the effective date of CSQM 2 was not included in the ED-QM, and is, therefore, a new Canadian amendment. The amendment responds to concerns stakeholders raised during the case-study workshop. The Board believes that re-exposure would likely not result in any new information that would change its decision on this matter. The Board concluded that re-exposure is not necessary given the nature of the amendment.

List of Respondents to the Exposure Draft

- Vani Balabaskaran, CPA, CGA
- Clearline Consulting
- CPA Québec Order
- MNP LLP
- Provincial Auditor of Saskatchewan

Summary of Participants in the Webinar

Attended "Live"	Attended "On Demand"	Total
534	1,779	2,313

Summary of Participants in the Consultations (during Exposure Draft Period)

Format	Large firms	SMPs 1	Public sector	Regulators	Academics	Provincial institutes / Ordre members
	Number of participants					
Video roundtable consultations – open to all stakeholders		19				
Video roundtable consultation – CPA British Columbia		17				2
Virtual roundtable Consultations – CPA Québec Order	1	7	1		1	3
In-person roundtable consultation – CPA Ontario SMP Committee		11				4

In-person workshop to field test the proposals	3	2					
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Footnotes

1. 1. Small and medium-sized practitioners
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