

BASIS FOR CONCLUSIONS CANADIAN AUDITING STANDARD (CAS) 220, Quality Management for an Audit of Financial Statements

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 Auditing Standard [\(CAS\) 220, Quality Management for an Audit of Financial Statements](#).

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 Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements*, and related conforming amendments to other 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 the revisions to ISA 220 (Revised) address comments the IAASB 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 International Standard on Quality Management (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 ISA 220 (Revised) and related conforming amendments to other 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, ISA 220 (Revised) and related conforming amendments to other ISAs as:

- Canadian Standard on Quality Management ([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](#);
- [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 ED-QM.

During the ED-QM comment 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 [CAS 220](#) 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 [CAS 220](#) and related conforming amendments to other CASs, prior to its issuance in the CPA Handbook – Assurance (Handbook).

Significant Matters

AASB's Consideration of Amendments to ISA 220 (Revised)

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

1. Paragraphs [C12C\(k\)](#) and [CA27](#) of CAS 220 contain amendments to references in ISA 220 (Revised) to the IESBA Code. As proposed in ED-QM, these references have been replaced with references to relevant ethical requirements applicable in Canada. None of the respondents to ED-QM objected to these amendments.

AASB's Re-exposure Considerations

2. In approving [CAS 220](#), no new Canadian amendments were identified that were not included in ED-QM. Therefore, re-exposure is not necessary.

List of Written Response Letters

- Vani Balabaskaran, CPA, CGA
- Clearline Consulting
- CPA Québec Ordre
- 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 Ordre | 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 | | | | |

Footnotes

1. Small and medium-sized practitioners

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