

## **CICA handbook – assurance highlight summary no. 20 August 2004**

### **HIGHLIGHT SUMMARY**

(Note: New Handbook material or changes in existing material are identified in each HANDBOOK REVISIONS RELEASE.)

#### **GENERAL STANDARDS FOR FIRMS**

##### **General standards of quality control for firms performing assurance engagements, GSF-QC**

This new Standard establishes a framework and provides guidance on quality control policies and procedures applicable to assurance engagements (collectively, "the system of quality control") to be established by a firm (which includes a sole practitioner and a legislative audit office) that performs assurance engagements. It is the first Standard to be published in the CICA Handbook – Assurance that is outside assurance standards, and it forms part of generally accepted standards of the profession.

The Standard requires that the firm establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements, and that reports issued by the firm or the practitioner are appropriate in the circumstances. These professional standards include standards for assurance engagements set out in the CICA Handbook – Assurance and applicable ethical requirements, including the rules of professional conduct related to independence.

Specifically, the new Recommendations include requirements for the firm to establish policies and procedures designed to provide the firm with reasonable assurance that:

- it and its personnel maintain independence in all required circumstances, and that it is notified of breaches of independence requirements;
- it identifies and assesses the potential sources of risks associated with a client relationship or a specific assurance engagement;
- it has sufficient personnel with the competencies and commitment to ethical principles necessary to perform its assurance engagements, and that an assurance team assigned to an engagement collectively possesses the competencies necessary to complete the engagement;
- appropriate consultation takes place on difficult or contentious matters, that sufficient resources are available to enable this to happen, and that differences of opinion are dealt with and resolved;
- the system of quality control is relevant, operating effectively and complied with in practice (monitoring), and that deficiencies noted as a result of the monitoring process are evaluated appropriately; and
- it deals appropriately with complaints and allegations that its work fails to comply with professional standards and regulatory and legal requirements.

In addition, other Recommendations require the firm to establish policies and procedures requiring:

- promotion of an internal culture based on the recognition that quality is essential in performing assurance engagements;
- performance of an engagement quality control review for all audit engagements to report on the financial statements of a public enterprise, and establishment of criteria for considering whether such a review should be performed for other assurance engagements; and
- appropriate documentation to provide evidence of the operation of each element of its system of quality control.

The new Recommendations are effective December 1, 2005. Consequently, a system of quality control complying with these Recommendations should be in place by that date for firms that perform assurance engagements.

#### **ASSURANCE RECOMMENDATIONS**

##### **Quality control procedures for assurance engagements, Section 5030**

This new Section establishes standards and provides guidance on the specific quality control procedures to be performed by the practitioner and other members of the assurance team in an assurance engagement.

The Section requires that the assurance team implement quality control procedures that are applicable to the individual assurance engagement, and in particular the Section sets out specific responsibilities of the practitioner concerning the performance of each assurance engagement for which he or she is responsible, including the following matters:

- the quality of the work performed and the promotion of a quality-oriented culture;
- the compliance of the assurance team with applicable ethical requirements, including independence requirements, set out in the rules of professional conduct / code of ethics applicable to the practice of public accounting directed to practitioners and other members of the assurance team when performing assurance engagements;
- determining that the assurance team, collectively, has the competencies, resources and time necessary to complete the engagement; and
- various aspects of engagement performance (for example: planning, supervision and review, consultation, resolving differences of opinion, and ensuring that an engagement quality control review is performed when required).

The new Recommendations are effective for assurance engagements concerning financial statements and financial reports for periods commencing on or after December 1, 2005.

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