

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 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\) 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements.](#)

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) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, 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 1 addresses 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 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 1 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, 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 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.

Following exposure, the IAASB revised proposed ISQM 1 based on comments the IAASB received. To obtain more input from small and medium-sized practitioners (SMPs) and to field test further the revised requirements in the proposed standard, the AASB performed a case-study workshop during the summer of 2020.

The AASB approved final [CSQM 1](#) 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 1](#) and related conforming amendments to other CASs prior to their issuance in the CPA Handbook – Assurance (Handbook).

Public Interest Considerations

In addition to the key public interest considerations the IAASB identified in its Basis for Conclusions, the AASB identified specific Canadian public interest considerations as follows:

- the need for a system of quality management that is proportional and scalable to firms of different natures and sizes;
- the demand for assurance engagements other than audits or reviews of historical financial statements;
- the demand for related services engagements;
- the use of related service engagement reports by third-party users; and
- the need for consistent performance of high-quality related service engagements in Canada, resulting in improvements in quality.

Significant Matters

Scope of [CSQM 1](#)

1. Extant [CSQC 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements](#), does not apply to related services engagements.
2. In the ED-QM, the AASB proposed to adopt ISQM 1 as [CSQM 1](#), which would extend the scope of the firm-level quality management standard to all standards in the Handbook, including those dealing with related services engagements.
3. Such related services standards include:
 - Canadian Standard on Related Services ([CSRS 4200, Compilation Engagements](#));
 - [CSRS 4400, Agreed-upon Procedures Engagements](#); and
 - [CSRS 4460, Reports on Supplementary Matters Arising from an Audit or a Review Engagement](#).
4. The AASB recognized adopting ISQM 1 as [CSQM 1](#), and scoping in related services engagements, would represent a significant change for many smaller firms and sole practitioners that currently do not apply CSQC 1.
5. The AASB proposed to adopt ISQM 1 as [CSQM 1](#), with no Canadian amendment to the scope of the standard for the following reasons:
 - It is in the public interest that practitioners consistently perform high-quality engagements. A system of quality management will support the consistent performance of high-quality engagements.
 - Related services engagements are being conducted for a broader range of external users. They are relevant and sought-after services. As a result, there is an increased need for quality management standards to drive the consistent performance of high-quality engagements.
 - Proposed ISQM 1 is designed to be scalable to different firms, engagements, and subject matters now and in the future. It is intended to be scalable to the nature of the firm and the engagements it performs, while requiring a base level of quality management. As a result, the standard will facilitate the application of systems of quality management to smaller firms, including firms that only conduct related services engagements.
6. The AASB performed pre-exposure draft consultations with SMPs and sole practitioners and heard that two specific components of the system of quality management may present implementation challenges for SMPs and sole practitioners as follows:
 - *Governance and leadership:* The requirements in proposed ISQM 1 would be challenging for a sole practitioner to implement given the lack of internal resources. Responsibilities under the system of quality management are to be assigned to different individuals and resources are limited in an SMP and sole practitioner environment.
 - *Monitoring and remediation:* The requirements in proposed ISQM 1 would be challenging for SMPs and sole practitioners to implement given the lack of available resources, both internally and externally. Proposed ISQM 1 required the firm to perform inspections of completed engagements on a cyclical basis determined by the firm. It prohibited a member of the engagement team from performing these inspections, recognizing a self-review threat. As a result, many SMPs and sole practitioners will have to engage an external resource to perform the inspection of completed engagements, given the lack of available resources within their own firm. SMPs and sole practitioners, specifically those in rural areas may face challenges in obtaining an external resource.
7. Feedback obtained during the comment period for the ED-QM confirmed these views.
8. Using an updated draft of ISQM 1 that reflected revisions the IAASB made in response to comments received on exposure, the AASB conducted further consultations with SMPs and sole practitioners to gain input on the scalability of the revised standard. These consultations were designed with a particular focus on the scalability of the proposed

standard in the context of a firm that only conducts related services engagements, including the governance and leadership and monitoring and remediation components.

9. The consultations were conducted through a case-study workshop. The workshop's purpose was to obtain input from SMPs and sole practitioners through applying certain requirements of the standard using a practical, hands-on approach.
10. Feedback received from the case-study workshop indicated that the revisions made in finalizing ISQM 1 enhanced the scalability of the standard. The required responses that were included in proposed ISQM 1 were removed and replaced with principal-based requirements and application material that recognizes differing firm sizes and structures and the engagements they perform.
11. The AASB noted that the IAASB made several revisions to the monitoring and remediation component in finalizing ISQM 1.
ISQM 1 retains the requirement for a firm to include in its monitoring activities the inspection of completed engagements for each engagement partner on a cyclical basis determined by the firm. Such inspections cannot be performed by engagement team members or the engagement quality reviewer. ISQM 1 allows for flexibility in the cycle a firm may set for inspections of completed engagements. However, certain firms will need to find an external resource to perform these activities when individuals with the appropriate objectivity are not available within the firm.
12. The AASB concluded that the requirement for a firm to inspect completed engagements is a critical activity in the monitoring and remediation component to support engagement quality. However, the Board recognizes that complying with this requirement may be challenging for some firms unless there are external parties willing to conduct engagement inspections. The Board is committed to working with provincial CPA bodies and supporting the development of non-authoritative guidance to expand the availability of qualified external resources in this area.
13. In analyzing the revisions to ISQM 1 and reviewing all feedback received, the AASB concluded it is appropriate for [CSQM 1](#) to apply to related services engagements.

AASB's Consideration of Amendments to ISQM 1

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

14. Paragraphs [C16C\(t\)](#), [CA2](#), [CA23](#), [CA62](#), [CA71](#) and [CA74](#) of CSQM 1 contain amendments to references in ISQM 1 to the IESBA Code. As proposed in the ED-QM, these references have been replaced with references to relevant ethical requirements applicable in Canada. None of the respondents to the ED-QM objected to these amendments.

Effective Date of [CSQM 1](#) for Related Services Engagements

15. ISQM 1 requires firms to design and implement their system of quality management by December 15, 2022. The evaluation of the system of quality management is required to be performed within one year following December 15, 2022.
16. The AASB indicated in the ED-QM that it recognized that implementing proposed ISQM 1 may require significant effort, particularly for those practitioners who currently are not required to have a system of quality control under [CSQC 1](#). During the AASB's case-study workshop, SMPs and sole practitioners confirmed this view. They further noted the potential challenges of achieving an effective implementation of [CSQM 1](#) given that the implementation timing coincides with the implementation of other significant standards including:
 - [CSRS 4200](#), effective for periods ending on or after December 14, 2021; and
 - [CSRS 4400](#), effective for engagements for which the terms of engagement are agreed on or after January 1, 2022.
17. The AASB reviewed the public interest considerations related to this matter, including:
 - the training needs of practitioners who do not have a system of quality control and are implementing a system of quality management for the first time;
 - the need for effective implementation of [CSQM 1](#), [CSRS 4200](#) and [CSRS 4400](#) during the same time period, and the consequences should the implementation of CSQM 1 be delayed, and the consequences if CSRS 4200 and CSRS 4400 are not implemented effectively; and
 - the need for additional time to develop implementation guidance for those establishing a system of quality management for the first time and establishing resources for firms that require external monitoring.
18. On balance, the AASB concluded that it is in the public interest to delay the effective date of [CSQM 1](#) for related services engagements. The Board determined that the most effective means of doing so is to require systems of quality management for related services engagements be designed and implemented by December 15, 2023, which is one year later than for audits or reviews of financial statements or other assurance engagements. The evaluation of the system of quality management would be performed within one year following December 15, 2023. Paragraph [C13](#) of CSQM 1 contains the amendment to the effective date of ISQM 1.

AASB's Re-exposure Considerations

19. In approving [CSQM 1](#), 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 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 | | | | |

Summary of Participants in Case-Study Workshop (Post-Exposure Draft)

| Format | Large firms | SMPs | Public sector | Regulators | Academics | Provincial institutes / Ordre members |
|-------------------------------|-------------|------|---------------|------------|-----------|---------------------------------------|
| Number of participants | | | | | | |
| Virtual case-study workshop | | 15 | | | | |

Footnotes

1. Small and medium-sized practitioners

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