

# Audit & Assurance Alert

## CANADIAN STANDARDS ON QUALITY MANAGEMENT

MAY 2021

### STANDARDS DISCUSSED

- 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*
- CSQM 2, *Engagement Quality Reviews*
- Canadian Auditing Standard (CAS) 220, *Quality Management for an Audit of Financial Statements*.

### Why should you read this *Alert*?

The new suite of quality management standards at the firm and engagement level brings a significant number of changes for Canadian practitioners performing *any* engagement addressed by standards in the *CPA Canada Handbook - Assurance*.

Canadian Standard on Quality Control (CSQC) 1 applied to audits and reviews of financial statements, as well as other assurance engagements, but did not extend to related services standards in the *Handbook*. Therefore, for many small and medium-sized practitioners (SMPs), including sole practitioners, who only perform compilation engagements, CSQC 1 did not apply. Under CSQM 1, these firms may be designing, implementing, and operating a system of quality management (SOQM), for the first time.

If you are adopting the new suite of quality management standards for the first time, please refer to our more detailed *Practitioner Alert*.

## What you need to know?

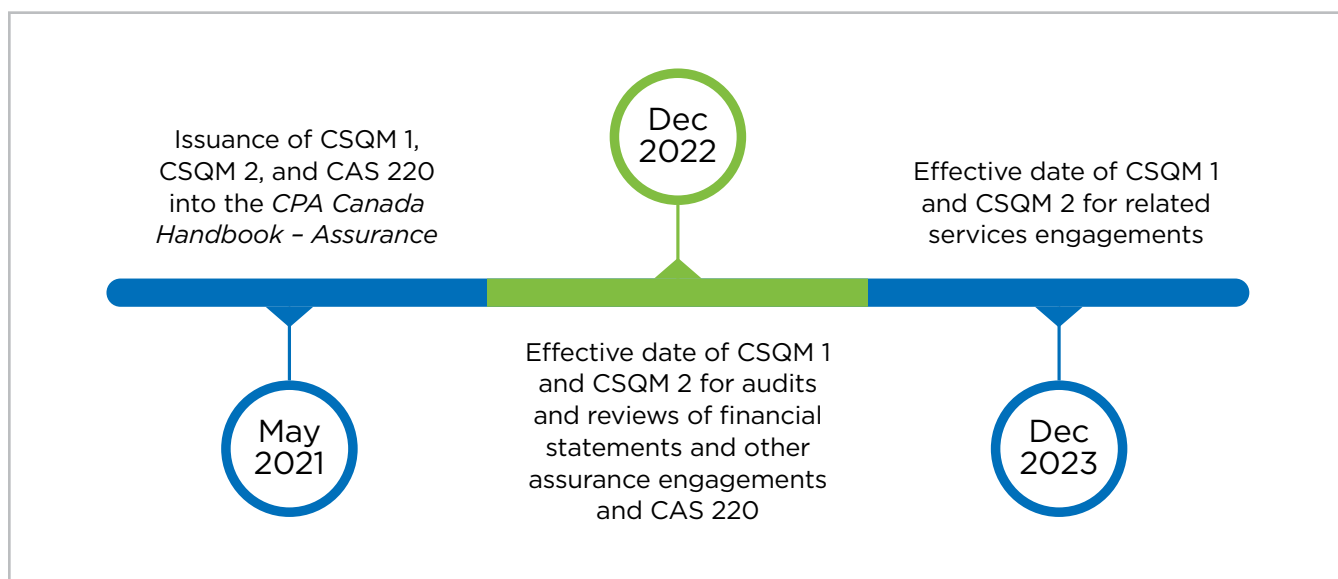
This *Audit & Assurance Alert (Alert)* is being issued to raise awareness about the new Canadian standards on quality management at the firm and engagement level, including engagement quality reviews.

CSQM 1 and CAS 220 replace:

- CSQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements*
- CAS 220, *Quality Control for an Audit of Financial Statements*.

CSQM 2 is a new standard addressing the appointment and eligibility of engagement quality reviewers and their responsibilities when performing the engagement quality review.

### TIMELINE AND SEQUENCE OF EVENTS



## How significant are the changes in this new suite of quality management standards?

CSQM 1 moves away from a focus on quality control and introduces a new approach to managing quality, driving the change in the name of the standards to “quality management.” The concept of quality control was thought to be reactive in nature, with many reviewing files after they were performed to ensure the requirements of quality control were met. Quality management, on the other hand, is intended to be proactive in nature, introducing a continuous process that is to be engrained in the firm’s culture and strategy.



In performing a post-implementation review of International Standards on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, the International Auditing and Assurance Standards Board (IAASB) noted many stakeholders, including oversight bodies, raised concerns that the requirements in relation to engagement quality reviews were not sufficiently robust. Developing International Standard on Quality Management (ISQM) 2 – adopted as CSQM 2 in Canada – as a separate standard allows for more robust performance and documentation requirements. Scalability is also improved as an engagement quality review (EQR) may not be performed on all engagements, in which case, the standard would not apply.

CAS 220 has been revised to clarify and strengthen the key elements of quality management at the engagement level and introduces a stand-back requirement for the engagement partner.

## What are the key differences?

The IAASB has issued fact sheets which provide an overview of changes made to the standards, and the outcome that the new standards are seeking to achieve. The Canadian standards CSQM 1, CSQM 2, and CAS 220 largely mirror ISQM 1, ISQM 2, and ISA 220 (Revised), respectively. The IAASB fact sheets for these standards are available in English using the following links:

- [ISQM 1 Fact Sheet](#)
- [ISQM 2 Fact Sheet](#)
- [ISA 220 \(Revised\) Fact Sheet](#)

## What additional resources are available to help you?

- [Basis of Conclusions for CSQM 1](#) (May 2021)
- [Basis of Conclusions for CSQM 2](#) (May 2021)
- [Basis of Conclusions for CAS 220](#) (May 2021)
- [IAASB implementation resources](#)

CPA Canada plans to host a *Practitioner's Pulse webinar* and publish additional guidance to help you implement these new standards.

## Feedback

If you have comments on this *Audit & Assurance Alert* or suggestions for future *Alerts*, please send them to:

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