

# Implementation Tool for Practitioners

## CANADIAN STANDARDS ON QUALITY MANAGEMENT

MARCH 2022

### 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*

#### **A Focus on Firms that Perform Related Services Engagements**

The Auditing and Assurance Standards Board (AASB) has issued the following:

- 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*

#### **Primary Standard Discussed**

This Implementation Tool for Practitioners (*Tool*) discusses CSQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*. The *Tool* is directed at firms that do not perform assurance engagements.

Standard	Addressed in this Tool
CSQM 1	Yes, directed at firms that do not perform assurance engagements and perform related services engagements
CSQM 2	No, because engagement quality reviews are not expected to be common for related services
CAS 220	No, this Tool is not directed to those practitioners performing audit engagements

This Tool is intended to assist you, the practitioner, with the implementation of CSQM 1. Reading this Tool does not replace the need to read CSQM 1, including the application and other explanatory material.

The Tool is directed at firms that do not provide assurance services. If you provide assurance services and currently have a quality assurance manual prepared in accordance with CSQC 1<sup>1</sup> and related standards, you will find the International Implementation Tool useful. [ISQM 1 First-Time Implementation Guide | IFAC \(iaasb.org\)](#)

CSQM 2, *Engagement Quality Reviews*, deals with the appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review. The need for engagement quality reviews (EQRs) is not expected to be common for related services engagements. However, if you decide to include a policy relating to EQRs in your system of quality management for related services, reviewing the content of CSQM 2 in detail is important.

**In summary:** This Tool's primary objectives are to assist you with the **implementation** of CSQM 1 for your practice and to help you gain an understanding of how to develop a System of Quality Management (SOQM). The Tool assumes that your practice does not include assurance engagements.



#### QUESTION 1

##### CSQM 1 now addresses related services. What is included in related services?

Related services are those services which are performed using standards in the *CPA Canada Handbook - Assurance (Handbook)*. These include:

- **Canadian Standard on Related Services (CSRS) 4200, *Compilation Engagements***
- CSRS 4400, *Agreed-upon Procedures Engagements*
- CSRS 4460, *Reports on Supplementary Matters Arising from an Audit or a Review Engagement\**
- Other standards addressing association and consent

1 Canadian Standard on Quality Controls (CSQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements*.

Related services do not include other services a practitioner may offer, including tax and consulting / advisory.

**\*Note:** If you do not perform assurance engagements, CSRS 4460 is not relevant, as it relates to an engagement that arises from an audit or review engagement.



## QUESTION 2

### What is a System of Quality Management (SOQM)?

The SOQM is the mechanism creating an environment that enables and supports engagement teams in performing quality engagements. It helps you achieve consistent engagement quality because it is focused on how you manage the quality of engagements performed.

Similar to any system of internal control, the SOQM needs to have a purpose. The purpose is important for designing the SOQM and determining whether the SOQM is effective (i.e., whether it achieves its purpose). Therefore, CSQM 1 addresses both the objective of your firm and the objective of the SOQM.

(CSQM 1 Para. 14)

## Effective Date

(CSQM 1 Para. C13)

For those firms who perform related services but did not previously have a quality assurance manual to meet the requirements of CSQC 1 (i.e., no audits or reviews of financial statements or other assurance engagements), CSQM 1 is effective on **December 15, 2023**. You are permitted to use the new standard before the effective date.

REMINDER: Keep in mind two important implementation dates:

- Your SOQM for related services engagements is required to be designed and implemented by **December 15, 2023**.
- The evaluation of your SOQM is required to be performed within **one year following** December 15, 2023.

**ACTION NEEDED NOW!** Developing your SOQM will take time. Start the project soon!

## Using This Tool

This *Tool* reviews the implementation issues related to CSQM 1, using examples and frequently asked questions to assist you.

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## Scope of CSQM 1

(CSQM 1 Paras. 1-5 and A1-CA2)

“Does CSQM 1 apply to my firm?” may be the first question on implementation that you pose. Looking at the scope of the standard is the best answer. CSQM 1 deals with a firm’s responsibilities to design, implement and operate an SOQM for audits or reviews of financial statements, or other assurance or related services engagements. As mentioned earlier, this *Tool* focuses on related services engagements.

CSQM 1 applies to **all** firms performing audits or reviews of financial statements, or other assurance or [related services engagements](#).

In circumstances when your firm performs other types of engagements not performed under the *Handbook* (e.g., tax services or consulting services), CSQM 1 does not require that the SOQM extend to such engagements.

Nevertheless, CSQM 1 may affect operational areas of your firm (e.g., IT and human resources), other engagements that are not performed under the *Handbook* or personnel in your firm who are not involved in performing engagements under the *Handbook*. This is because CSQM 1 does not view quality management as a separate function of your firm. Instead, to enhance the effectiveness of quality management, CSQM 1 promotes integrating quality management into (1) the culture of your firm and (2) your firm’s strategy, operational activities and business processes.

This *Tool* includes explanations of how you may develop your system of quality management and answers questions you may have regarding the implementation of CSQM 1.

**Firm** = A sole practitioner, partnership or corporation or other entity of professional accountants, or public sector equivalent. (CSQM 1 Para. C16(i) and A18)

This *Tool* uses the term “firm” hereafter.

This *Tool* does not discuss matters related to network firm membership. If you are a member of a network firm, review CSQM 1 for guidance.



### QUESTION 3

**If my firm provides primarily tax and consulting / advisory services, does CSQM 1 apply?**

If the tax and consulting / advisory work includes services considered to be related services as defined in the *Handbook*, such as a compilation engagement, CSQM 1 is applicable. Otherwise, it is not applicable.

However, although applying CSQM 1 is not required for these services, risk management and quality are important objectives for all services, and you may find it helpful to read CSQM 1 and consider a more formal risk assessment process.

CSQM 1 requires your firm to customize the design, implementation and operation of your SOQM, based on the nature and circumstances of your firm and the engagements it performs. The SOQM is to be a proactive and tailored approach to managing quality, focused on achieving quality objectives through identifying risks to those objectives.



#### QUESTION 4

##### **Do I have to establish a “manual” with firm-wide responses to the quality risks?**

No, you do not need a formal manual format. However, documentation is required to demonstrate your compliance with CSQM 1 and to facilitate monitoring of the SOQM. For some aspects of the SOQM, a smaller firm may determine that there is no need to establish firm-wide responses and may instead design and implement responses that operate concurrently with the engagement-level quality management. Creating a summary that references all of the requirements of CSQM 1 but includes a cross-reference to other documents (e.g., a human resource policy manual) for the documentation of the responses may be useful.

## Scalability



#### QUESTION 5

##### **What does “Scalability” mean, and how does CSQM 1 address scalability?**

Scalability means that you use professional judgment in the design, implementation and operation of your SOQM in a way that aligns with the size and nature of your practice.

CSQM 1 addresses scalability by providing specific guidance and application material as discussed below and included in other parts of this *Tool*. Professional judgment is required in designing, implementing and operating the SOQM. Generally, it is important not to overbuild the SOQM but, at the same time, make sure that it meets the requirements of CSQM 1 and addresses your quality risks.

Scalability, and tailoring the SOQM, has been embedded in the requirements of CSQM 1 in several ways:

- The quality objectives are outcome based, and you determine how to achieve the quality objectives.
- The quality risks are tailored to your firm. In identifying and assessing quality risks, focus on understanding conditions, events, circumstances, actions, or inactions that relate to the nature and circumstances of your firm and engagements.
- There are only a limited number of required specified responses. You are expected to design and implement your own responses that are responsive to the quality risks identified.
- The requirements for the monitoring and remediation process set out what your firm is expected to have in place to address monitoring and remediation. How your firm implements that process is tailored to your firm’s circumstances.



The application material in CSQM 1 includes examples that demonstrate how to apply aspects of the standard to smaller firms. This *Tool* focuses on examples and discussions to demonstrate how to apply CSQM 1 for smaller firms, and does not focus on larger, more complex firms.



#### QUESTION 6

##### **Does every firm have to follow each requirement of CSQM 1?**

Yes, unless the requirement is not relevant to the firm because of the nature and circumstances of the firm or its engagements. As indicated, the relevance of a specific requirement depends on the nature and circumstances of the firm or its engagements. For example, if you are a sole practitioner, the requirements related to the following matters may not be relevant:

- Organizational structure and assigning roles
- Responsibilities and authority within the firm
- Direction, supervision and review
- Addressing differences of opinion

(CSQM 1 Paras. 17 and A29)



#### QUESTION 7

##### **Do I have to exercise professional judgment in the application of CSQM 1?**

Yes, CSQM 1 requires you to exercise professional judgment in designing, implementing and operating the SOQM.

Professional judgment will be exercised to tailor the design, implementation and operation of your SOQM, based on the nature and circumstances of your firm and the engagements performed.

Professional judgment as defined and as applicable in CSQM 1 is as follows:

**Professional judgment** – The application of relevant training, knowledge, and experience, within the context of professional standards, in making informed decisions about the courses of action that are appropriate in the design, implementation and operation of the firm’s SOQM.

(CSQM 1 Para. C16(o))

## What is in it for Me?

The application of CSQM 1 and the resultant development of an SOQM provide the following potential benefits:

Potential benefits of the application of CSQM 1 and the creation of an SOQM:	Sole Practitioner	Sole-Practitioner with Staff	Partners with Staff
<ul style="list-style-type: none"> <li>Improve the reputation of all firms, as the creation of an SOQM and a focus on quality of service contribute towards enhancing the public trust of the CPA profession as a whole.</li> </ul>	✓	✓	✓
<ul style="list-style-type: none"> <li>Reduce the risk that quality may be compromised, by requiring a risk assessment process related to the achievement of quality that may be more rigorous (and documented more formally) than current processes.</li> </ul>	✓	✓	✓
<ul style="list-style-type: none"> <li>Help drive the business of all practices by requiring a proactive approach to the management of risks.</li> </ul>	✓	✓	✓
<ul style="list-style-type: none"> <li>Improve efficiency by setting up clear processes and responses that are documented (and communicated, as needed) and consistently applied.</li> </ul>	✓	✓	✓
<ul style="list-style-type: none"> <li>Facilitate the management / governance of the firm and provide a regular reminder on the risk related to client selection and retention by putting an emphasis on acceptance / continuance decisions.</li> </ul>	✓	✓	✓
<ul style="list-style-type: none"> <li>Trigger more open and regular discussions of matters related to quality with staff.</li> </ul>		✓	✓
<ul style="list-style-type: none"> <li>Align decision-making and accountability of different partners who may have a tendency to operate in “silos” and enhance consistency of behaviours in the firm.</li> </ul>			✓
<ul style="list-style-type: none"> <li>Align decision-making and accountability of the firm with all staff.</li> </ul>		✓	✓
<ul style="list-style-type: none"> <li>Comply with the requirements of the profession, reducing stress related to inspection or regulatory findings.</li> </ul>	✓	✓	✓

As you continue reading this *Tool*, you will see that through the application of CSQM 1 and the development of your SOQM you will be able to build and enhance policies and procedures that already exist in your firm. The standard was written to be scalable to your practice, and you should not be intimidated by the details included in CSQM 1. While the application of CSQM 1 and the implementation of an SOQM may represent a change and create some increased formality, you have an opportunity to take a fresh look at your practice and improve the services you provide to your clients.

## Responsibility for the SOQM

### Assigning responsibilities

(CSQM 1 Para. 19)

CSQM 1 requires the firm to design, implement, and operate an SOQM. As a result, the firm remains ultimately responsible for the SOQM. Nevertheless, the firm is not an individual that can take action; it is an entity. As a result, CSQM 1 requires the firm to assign responsibilities for the SOQM, and other aspects of the SOQM, and to hold the individuals accountable for their assigned roles.

The roles and responsibilities that you must assign to an individual(s) include:

- Ultimate responsibility and accountability for the SOQM
- Operational responsibility for the SOQM
- Operational responsibility for specific aspects of the SOQM
  - Compliance with independence requirements
  - The monitoring and remediation process



#### QUESTION 8

**Is there any scalability guidance that is specifically relevant to the *assigning roles and responsibility* component?**

Yes, CSQM 1 indicates that the way your firm assigns roles, responsibilities and authority may vary.

In a smaller firm, ultimate responsibility and accountability for the SOQM may be assigned to a single person. This individual may also assume responsibility for all aspects of the SOQM, including operational responsibility for the SOQM, compliance with independence requirements, and the monitoring and remediation process.

If you are a sole practitioner, the requirements addressing the organizational structure and assigning roles, responsibilities and authority within the firm, as well as direction, supervision and review, and addressing differences of opinion may not be relevant.

(CSQM 1 Paras. A29 and A35)



#### QUESTION 9

**When assigning the SOQM accountabilities and responsibilities specifically required by CSQM 1, must you assign each role to a different person?**

It depends, as assigning the accountabilities and responsibilities to different people may not be possible in smaller firms. Combining and assigning some roles to one person may also be efficient.

The specific assignments will vary from firm to firm, and judgment will be needed to determine what is appropriate in the circumstances of your firm.



### QUESTION 10

**CSQM 1 states that individuals assigned with responsibilities are required to have appropriate experience, knowledge, time, influence, and authority. What exactly does “appropriate influence and authority” mean?**

Interpreting “appropriate influence and authority” may not be simple. Not all responsibilities must be assigned to partners; however, the individual must be given authority to complete their responsibilities. This could be achieved for example, if the individual has the relevant experience and is given authority in the SOQM.

**REMINDER:** Distinguishing between the assignment of tasks and the ultimate responsibility is important. Tasks can be assigned, but the assignment of a task does not diminish the responsibility assigned in the SOQM.



### QUESTION 11

**Can a manager be assigned the operational responsibility of the SOQM?**

As discussed, assigning responsibilities to individuals with sufficient experience, knowledge, time, influence, and authority demonstrates a commitment to the quality of the SOQM. Assigning such responsibility to a manager with the appropriate skills, authority and influence is not prohibited. However, the individual’s authority and influence must be supported in the SOQM, and supported by the partners, if applicable.

## Other factors to consider in assigning roles, responsibility and authority

CSQM 1 explains that how your firm assigns roles, responsibilities and authority may vary. Roles may be affected by requirements imposed by law or regulation related to the leadership and management structure, or individuals’ assigned responsibilities.

It is important to note that your firm cannot outsource the leadership responsibilities to a service provider because your firm is responsible for its SOQM, and the individual(s) who are assigned roles are required to have the appropriate influence and authority within the firm.

Your firm may have separate service lines that are not involved in the engagements performed under the *Handbook* (e.g., consulting services). It is possible that the individuals assigned responsibilities for the SOQM may be from a separate business line, as CSQM 1 does not require that the individuals assigned responsibilities for the SOQM, or aspects thereof, have extensive experience related to particular engagements performed by the firm. Nevertheless, given the responsibilities of the individuals, they may need to have experience related to, and knowledge of, the firm’s strategic decisions, actions, and business operations, including engagements performed by the firm.

## The Components of the SOQM

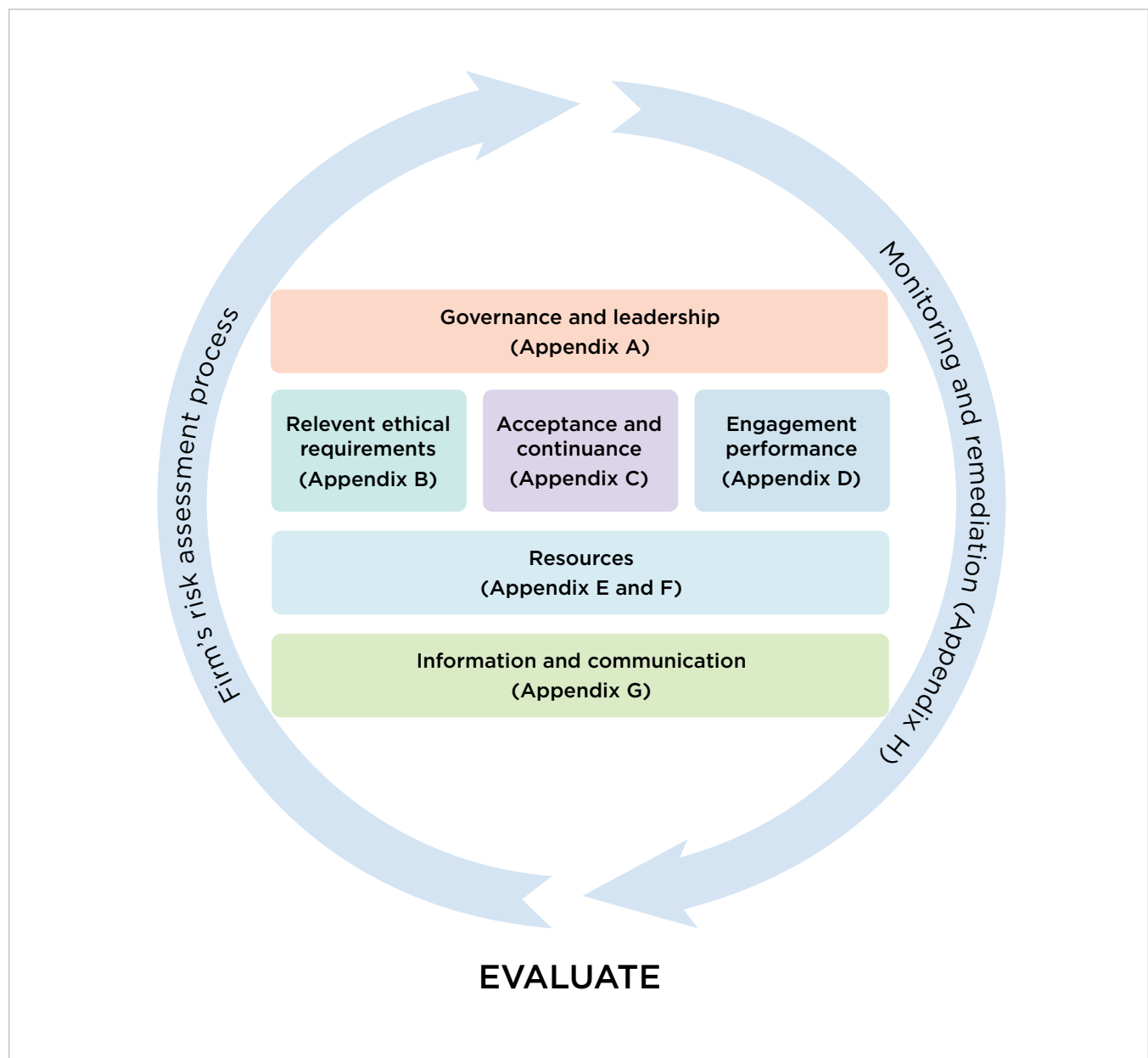
(CSQM 1 Paras. 6 and A3)

The system of quality management comprises:

- Eight interrelated components that deal with the key aspects of the SOQM
- Other requirements that address specific topics

Your firm needs to meet all of the requirements within CSQM 1, including those related to the components of the SOQM. An overview of the SOQM is summarized in Figure 1 below:

**FIGURE 1**



Please see an overview of the eight components:

<b>An overview of the eight components in CSQM 1</b>		
<p><b>Component 1:</b> The firm's risk assessment process</p>	<p><b>A process established by the firm as part of the SOQM</b></p>	<ul style="list-style-type: none"> <li>The process the firm is required to follow in implementing the risk-based approach to quality management.</li> <li>Consists of establishing quality objectives, identifying, and assessing quality risks to the achievement of the quality objectives and designing and implementing responses to address the assessed quality risks.</li> </ul>
<p><b>Component 2:</b> Governance and leadership (Discussed in <a href="#">Appendix A</a> of this <i>Tool</i>)</p>	<p><b>Establishes the environment in which the SOQM operates</b></p>	<ul style="list-style-type: none"> <li>Deals with matters such as the firm's culture, leadership responsibility and accountability, the firm's organizational structure, assignment of roles and responsibilities and resource planning and allocation.</li> </ul>
<p><b>Component 3:</b> Relevant ethical requirements (Discussed in <a href="#">Appendix B</a> of this <i>Tool</i>)</p>	<p><b>Specific topic fundamental for engagement performance</b></p>	<ul style="list-style-type: none"> <li>Deals with fulfilling relevant ethical requirements by the firm and its personnel.</li> <li>Also deals with relevant ethical requirements to the extent that they apply to others external to the firm.</li> </ul>
<p><b>Component 4:</b> Acceptance and continuance of client relationships and specific engagements (Discussed in <a href="#">Appendix C</a> of this <i>Tool</i>)</p>	<p><b>Specific topic fundamental for engagement performance</b></p>	<ul style="list-style-type: none"> <li>Deals with the firm's judgments about whether to accept or continue a client relationship or specific engagement.</li> </ul>
<p><b>Component 5:</b> Engagement performance (Discussed in <a href="#">Appendix D</a> of this <i>Tool</i>)</p>	<p><b>Specific topics fundamental for engagement performance</b></p>	<ul style="list-style-type: none"> <li>Deals with the firm's actions to promote and support the consistent performance of quality engagements, including through direction, supervision and review, consultation, and differences of opinion.</li> <li>Includes how the firm supports engagement teams in exercising professional judgment</li> </ul>
<p><b>Component 6:</b> Resources (Discussed in <a href="#">Appendices E and F</a> of this <i>Tool</i>)</p>	<p><b>Enables operation of other components</b></p>	<ul style="list-style-type: none"> <li>Deals with obtaining, developing, using, maintaining, allocating and assigning resources in a timely manner to enable the design, implementation, and operation of the SOQM.</li> <li>Includes technological, intellectual, and human resources and addresses service providers.</li> </ul>

## An overview of the eight components in CSQM 1

<p><b>Component 7:</b> Information and communication (Discussed in <a href="#">Appendix G</a> of this <i>Tool</i>)</p>	<p><b>Enables operation of other components</b></p>	<ul style="list-style-type: none"> <li>Deals with obtaining, generating, or using information regarding the SOQM, and communicating information within the firm and to external parties on a timely basis to enable the design, implementation, and operation of the SOQM.</li> </ul>
<p><b>Component 8:</b> Monitoring and remediation process (Discussed in <a href="#">Appendix H</a> of this <i>Tool</i>)</p>	<p><b>A process established by the firm as part of the SOQM</b></p>	<ul style="list-style-type: none"> <li>The process that:             <ul style="list-style-type: none"> <li>Provides the firm with relevant, reliable and timely information about the design, implementation and operation of the SOQM</li> <li>Addresses taking appropriate actions to respond to deficiencies such that deficiencies are remediated on a timely basis</li> </ul> </li> </ul>



### QUESTION 12

#### Do I have to set up my SOQM to align with the eight components and the layout of CSQM 1?

No, you are not required to organize your SOQM according to the eight components and may choose to use different terminology or frameworks to describe the components of the SOQM.

However, you will need to map your SOQM to the requirements of CSQM 1 if compliance is not evident in the style chosen.

## Continual and iterative operation of the SOQM

The SOQM developed under CSQM 1 is intended to operate in a continual and iterative manner to respond to changes in the nature and circumstances of your firm and its engagements. Furthermore, although CSQM 1 is written in a linear manner, an SOQM does not operate linearly, meaning:

- The various components and requirements in CSQM 1 are intended to be considered in the context of each other.
- Each component or requirement may affect other components or requirements.

## Risk Assessment Process (Component 1) and Specified Responses

(CSQM 1 Paras. 16(q), 16(r), 16(u), 23-27, 34, A25-A27, A39-A54, and A116-A137)

The foundation of CSQM 1 is that the firm needs to follow a risk-based approach to quality management, which focuses the firm on:

- The risks that may arise, given the nature and circumstances of the firm and the engagements it performs
- Implementing responses to appropriately address those risks

A risk-based approach helps the firm tailor the SOQM to the firm's circumstances and effectively manage quality through concentrating on what matters most to the firm.

CSQM 1 requires your firm have a risk assessment process, the purpose of which is to establish quality objectives, identify and assess quality risks and design and implement responses to address the quality risks:

**FIGURE 2**



How the firm goes about establishing quality objectives, identifying, and assessing quality risks, and designing and implementing responses will vary from firm to firm. The firm's approach is influenced by the nature and circumstances of the firm, including how the firm is structured and organized.

In a multiple partner firm, a formal risk assessment process may involve multiple individuals and numerous activities. The process may be centralized (e.g., the quality objectives, quality risks and responses are established centrally for all business units, functions and service lines) or decentralized (e.g., the quality objectives, quality risks and responses are established at a business unit, function or service-line level, with the outputs combined at the firm level).





### QUESTION 13

#### **Is there any scalability guidance related to the design of the risk assessment process and the establishment of quality objectives?**

Yes, CSQM 1 indicates how the design of your firm's risk assessment process may be affected by the nature and circumstances of your firm, including how your firm is structured and organized. For example, if in your firm the individual assigned operational responsibility for the SOQM also has sufficient understanding of your firm and its engagements to undertake the risk assessment process, these roles can be assigned to the same person. In addition, the documentation of the quality objectives, quality risks and responses may be less extensive for a smaller firm than for a larger or more complex firm (e.g., be contained in a single document).

CSQM 1 also indicates that under certain circumstances a quality objective, or an aspect thereof, may not be relevant to your firm because of the nature and circumstances of the firm or its engagements.

For example, the quality objective in paragraph 31(b) of CSQM 1 addressing direction and supervision of engagement teams and review of work performed may not be relevant when the firm is a sole practitioner, with no delegation or review of work.

(CSQM 1 Paras. 31(b) and A39 and Paras. 27 and A52)

## Establish Quality Objectives

(CSQM 1 Paras. 16(q), 24, and A42-A44)

Before discussing the establishment of quality objectives, it is important to recognize that the process of establishing quality objectives, identifying, and assessing quality risks, and designing and implementing responses is iterative and evolving. CSQM 1 explains that:

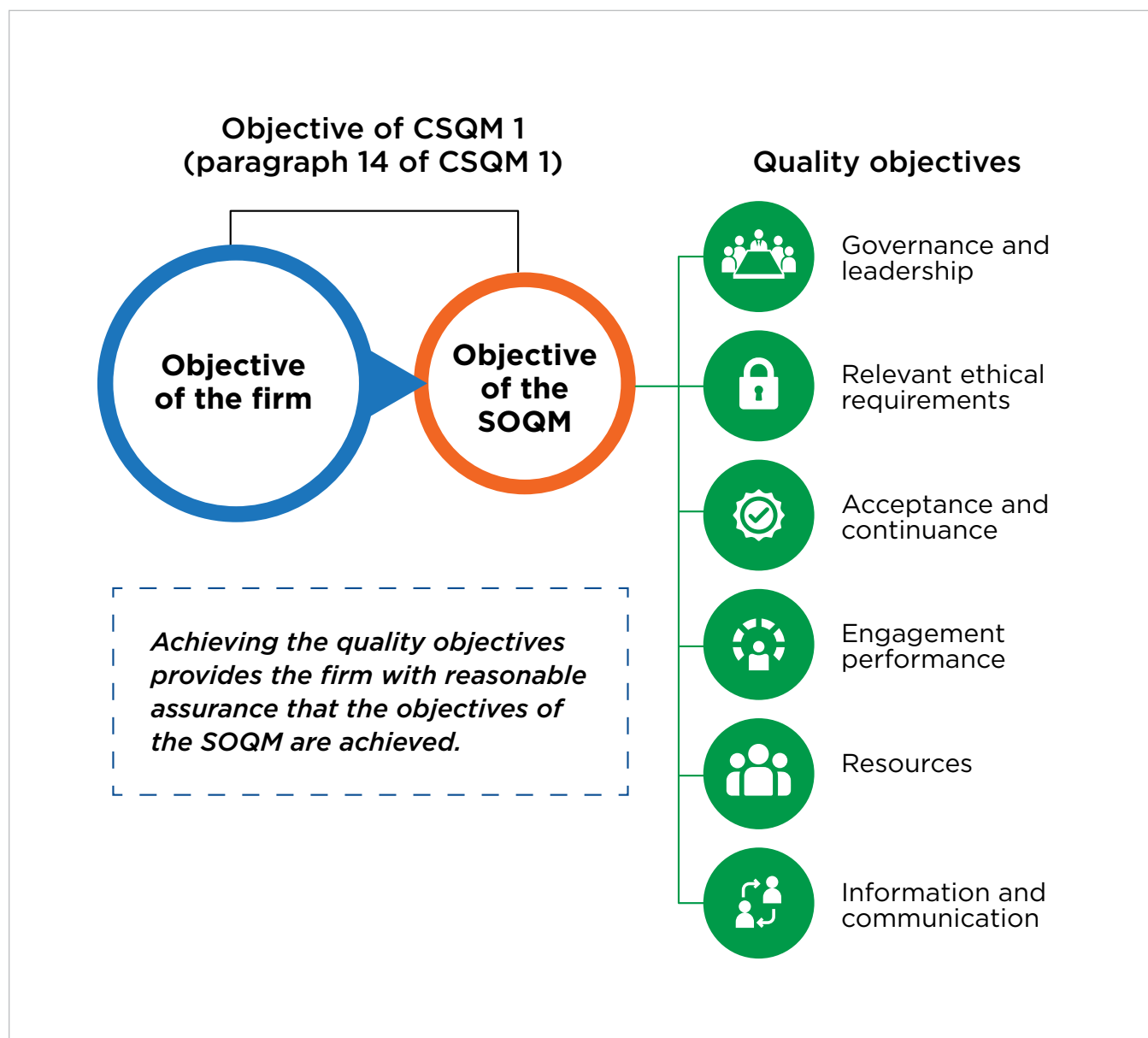
- In identifying and assessing quality risks, the firm may determine that an additional quality objective(s) needs to be established.
- When designing and implementing responses, the firm may determine that a quality risk was not identified and assessed.
- The firm's responses may give rise to conditions, events, circumstances, actions, or inactions that result in further quality risks.

An SOQM is effective when it achieves the objectives of the SOQM. The objectives of the SOQM as described in CSQM 1 are at a high level. As a result, CSQM 1 includes more specific *quality objectives* for the various components of the SOQM, so that it is clear what outcomes need to be achieved by the firm to have an SOQM that is effective in managing quality.

The quality objectives in each component will aid your firm in properly identifying and assessing quality risks because the quality objectives focus your firm more specifically on what needs to be achieved.

CSQM 1 includes quality objectives for the six components as illustrated below in Figure 3:

FIGURE 3



You are required to establish the quality objectives specified for these components.

### Describing the quality objectives

The quality objectives set out in the standard are comprehensive. It is important to exercise caution in describing the quality objectives from CSQM 1 in your SOQM. Using different or abbreviated terminology could inadvertently change the meaning of a quality objective. You could also lose or overlook a key aspect of the quality objective. A partially established quality objective could result in a deficiency in the SOQM.

### Example of a partially established quality objective

The firm establishes a quality objective as follows:

*Engagement documentation is assembled on a timely basis after the date of the engagement report.*

However, the firm has not established the remainder of the objective in accordance with paragraph 31(f) of CSQM 1, as follows:

*Engagement documentation is appropriately maintained and retained to meet the needs of the firm and comply with law, regulation, relevant ethical requirements, or professional standards*

### Example of a quality objective described differently by the firm that has lost a key aspect

The firm establishes a quality objective as follows:

*Engagement documentation is archived within 60 days and is retained for five years from the date of the engagement report.*

This quality objective has inadvertently lost a key aspect of the quality objective in paragraph 31(f) of CSQM 1. Specifically:

- It fails to deal with the need to maintain the documentation.
- It fails to take into account that the retention periods may need to change as a result of changes in the needs of the firm, law, regulation, relevant ethical requirements, or professional standards.

Your firm is not required, but may choose to, establish sub-objectives to enhance the identification and assessment of quality risks, and design and implementation of responses.

### Example of when a firm establishes sub-objectives

The firm has operating units making up its practice: tax and accounting services. The tax operating unit may often perform compilation engagements and occasionally may even perform agreed-upon procedure engagements, and the accounting services operating unit performs compilation engagements. The firm establishes sub-objectives for its operating units that are specifically tailored to be more relevant and suitable for the nature of services and engagements performed by the operating units. For example, the firm may establish the following sub-objectives related to the quality objective in paragraph 32(a)(i) of CSQM 1:

Quality objective in Para. 32(a)(i) of CSQM 1:

*Personnel are hired, developed, and retained and have the competence and capabilities to consistently perform quality engagements, including having knowledge or experience relevant to the engagements the firm performs.*

Sub-objectives established by the firm:

- Tax operating unit: *Personnel are hired, developed, and retained and have the competence and capabilities to consistently perform compilation engagements and agreed-upon procedures engagements, including having knowledge or experience relevant to agreed-upon procedures engagements and the compilation of financial information.*
- Accounting services operating unit: *Personnel are hired, developed, and retained and have the competence and capabilities to consistently perform compilation engagements, including having knowledge or experience relevant to compilations of financial information.*

### Establishing additional quality objectives

Since firms' circumstances vary widely, it is possible that there may be quality objectives in addition to those set out in CSQM 1 that your firm needs to establish, to achieve the objectives of the SOQM. Accordingly, CSQM 1 requires the firm to establish additional quality objectives when the firm considers additional objectives to be necessary to achieving the objectives of the SOQM. However, it is noted that the need to establish additional quality objectives is not expected to be common. Therefore, not all firms will find it necessary to establish additional quality objectives, or at least not every year.

### The relationship between the quality objectives

The quality objectives, if achieved, collectively achieve the objectives of the SOQM. As a result, the quality objectives across the components are interrelated and interdependent. For example, an objective in one component may overlap, be related to, support, or be supported by a quality objective in another component.

## Identify and Assess Quality Risks

(CSQM 1 Paras. C16(r), 25, A45-A48)

Identifying and assessing quality risks puts attention on what can go wrong in achieving the quality objectives. As a result, it assists the firm in designing and implementing responses that are effective in addressing the quality risks. It also helps the firm to use their resources more efficiently and effectively in addressing and improving quality.

### What is a quality risk?

The definition of a quality risk in CSQM 1 includes a threshold for what risks are considered a quality risk. A risk qualifies as a quality risk when it meets both criteria in the definition:

**The risk has a reasonable possibility of occurring.**

**The risk has a reasonable possibility of individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives.**

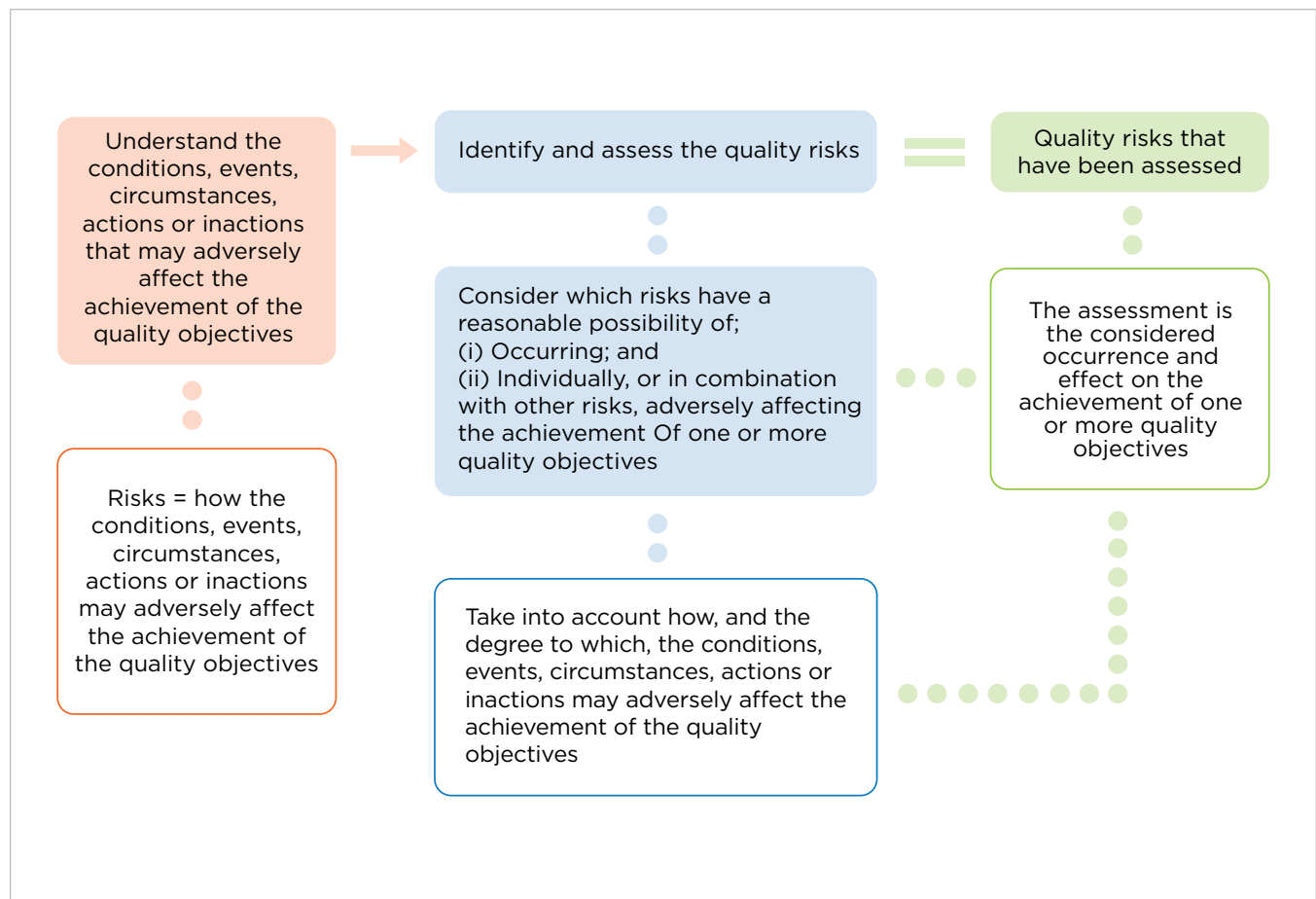
There may be many risks that could adversely affect the achievement of the quality objectives. However, not all risks are considered quality risks in CSQM 1 because it is not reasonable or practicable for the firm to identify and assess every possible risk, and to design and implement responses for every possible risk. CSQM 1 aims to focus the firm on risks that have the greatest impact on achieving the quality objectives, so that those risks are appropriately addressed by the firm.

The firm exercises professional judgment in determining whether a risk meets the threshold set out in the definition of quality risks.

## How your firm identifies and assesses quality risks

CSQM 1 sets out the process your firm is required to follow in identifying and assessing quality risks, which is depicted as follows:

FIGURE 4



The process focuses first on understanding the various conditions, events, circumstances, actions, or inactions related to your firm and its engagements that could adversely affect the achievement of the quality objectives. To emphasize, your firm is required to understand what may **adversely** affect the achievement of the quality objectives.

In identifying the quality risks, your firm considers:

- How, and the degree to which, the conditions, events, circumstances actions or inactions may affect the achievement of the quality objectives.
- The possible occurrence of the quality risks. This is necessary to determine whether the risk meets the threshold of a quality risk.

### Information sources to use in the risk assessment process

Given the proactive and iterative approach to managing quality, the information your firm uses to establish quality objectives, identify and assess quality risks, and design and implement responses includes information coming from your firm's SOQM, such as:

- Information generated through the information and communication component, which may originate from an internal or external source
- The results of your firm's monitoring and remediation process

### Examples of quality risks

Not all risks meet the definition of a quality risk. Professional judgment is required to determine whether a risk is a quality risk. Consider whether there is a reasonable possibility of the risk occurring, and individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives. The following guidance from CSQM 1 can help you in this judgment:

Examples of the firm's understanding of the conditions, events, circumstances, actions, or inactions that may adversely affect the achievement of the quality objectives	Examples of quality risks that may arise
<p>The strategic and operational decisions and actions, business processes, and business model of the firm: The firm's overall financial goals are overly dependent on the extent of services provided by the firm not within the scope of CSQM 1.</p>	<p>In the context of governance and leadership, this may give rise to a number of quality risks such as:</p> <ul style="list-style-type: none"> <li>• Resources are allocated or assigned in a manner that prioritizes the services not within the scope of CSQM 1 and may negatively affect the quality of engagements.</li> <li>• Decisions about financial and operational priorities do not fully or adequately consider the importance of quality in the performance of engagements.</li> </ul>
<p>The characteristics and management style of leadership: The firm is a smaller firm with a few engagement partners with shared authority.</p>	<p>In the context of governance and leadership, this may give rise to a number of quality risks such as:</p> <ul style="list-style-type: none"> <li>• Leadership's responsibilities and accountability for quality are not clearly defined and assigned.</li> <li>• The actions and behaviours of leadership that do not promote quality are not questioned.</li> </ul>
<p>The complexity and operating characteristics of the firm: The firm has recently completed a merger with another firm.</p>	<p>In the context of resources, this may give rise to quality risks including:</p> <ul style="list-style-type: none"> <li>• Technological resources used by the two merged firms may be incompatible.</li> <li>• Engagement teams may use intellectual resources developed by a firm prior to the merger, which are no longer consistent with the new methodology being used by the new merged firm.</li> </ul>

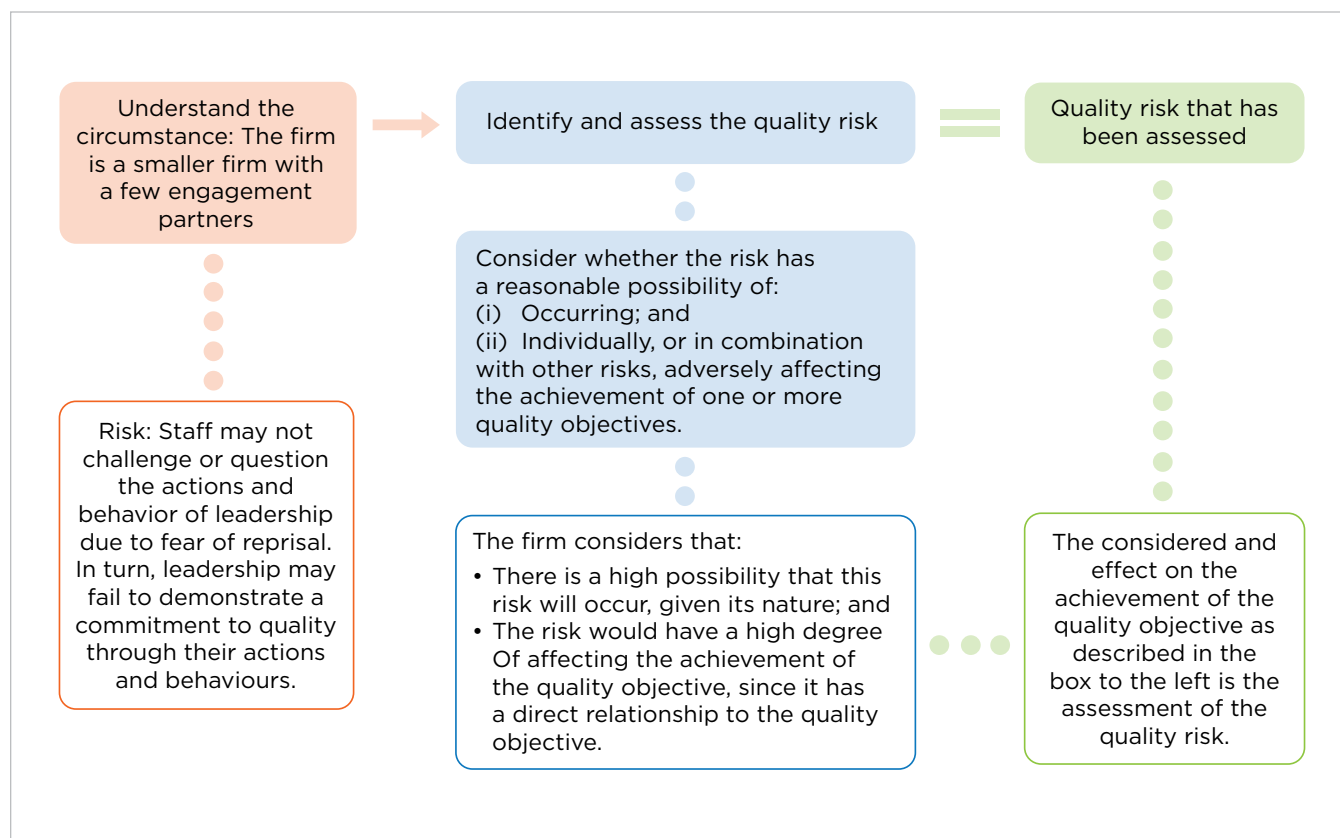
(CSQM 1 Para. A46)

### Process for identifying and assessing a quality risk

The **assessment** of the quality risks is also affected by how, and the degree to which, the conditions, events, circumstances, actions, or inactions affect the quality objectives. As a result, the identification and assessment of the quality risks may be undertaken simultaneously. A firm may choose to separately identify and assess quality risks as two discrete steps; however, this is not required or expected.

### Example of applying the process for identifying and assessing a quality risk

FIGURE 5



### The conditions, events, circumstances, actions, or inactions that could adversely affect the achievement of the quality objectives

In order to promote the consistent application of the risk identification and assessment process, CSQM 1 requires the firm to understand conditions, events, circumstances, actions, or inactions that are focused on the nature and circumstances of your firm and its engagements. Your firm is expected to:

- Understand conditions, events, circumstances, actions, or inactions
- Take into account (i.e., think about) how they may adversely affect the achievement of the quality objectives

(CSQM 1 Paras. 25(a) and (b))

### The conditions, events, circumstances, actions, or inactions in paragraph 25(a) of CSQM 1 that the firm is required to understand

<b>The complexity and operating characteristics of the firm</b>	Understand and consider matters such as the size of the firm, the geographical dispersion of the firm, how the firm is structured, the extent to which the firm concentrates or centralizes its processes or activities.
<b>The strategic and operational decisions and actions, business processes, and business model of the firm</b>	Understand and consider matters such as decisions about financial and operational matters, including the firm's strategic goals, how financial resources are managed, growth of the firm's market share, industry specialization or new service offerings.
<b>The characteristics and management style of leadership</b>	Understand and consider matters such as the composition of firm leadership and their tenure, how authority is distributed among leadership, or how leadership motivates and encourages personnel.
<b>The resources of the firm, including the resources provided by service providers</b>	Understand and consider matters such as the general background of the firm's personnel and overall staff profile and structure, the use of technology and how that technology is obtained, developed, and maintained, and the availability and allocation of financial resources. With respect to service providers, the nature of the resources provided by service providers, how and the extent to which they will be used by the firm, and the general characteristics of the service providers used by the firm.
<b>Law, regulation, professional standards, and the environment in which the firm operates</b>	Understand and consider matters such as regulations directly relevant to the firm, professional standards, other standards or regulation affecting engagements performed by the firm, economic stability, social factors, or the general public's perception of professional accountancy firms.
<b>The types of engagements performed by the firm and the reports to be issued</b>	Understand and consider matters such as which engagements the firm performs, including related services engagements, and the types of subject matter for which such engagements are undertaken.  The firm may also understand and consider how the reports the firm issues may be used by users.
<b>The types of entities for which engagements are undertaken</b>	Understand and consider matters such as the industries in which the entities operate and the nature of their business, the size and complexity of the entities, the nature of the entities' shareholding, or the size or nature of the entities' stakeholders.

It is essential to note that the list of conditions, events, circumstances, actions, or inactions in CSQM 1 is not exhaustive. There may be other conditions, events, circumstances, actions, or inactions that may adversely affect the achievement of a quality objective, which your firm would need to understand to further consider whether a quality risk exists.

Furthermore, not all conditions, events, circumstances, actions, or inactions are relevant to every quality objective.



## Examples of conditions, events, circumstances, actions, or inactions that may adversely affect the achievement of the quality objectives, and quality risks that may arise

<b>Condition, event, circumstance, action, or inaction that may adversely affect the achievement of a quality objective</b>	<b>Quality risk that may arise</b>
<p>The complexity and operating characteristics of the firm: The firm is a larger firm with multiple offices. Each office has a leader in charge of engagement quality and administrative and operational matters.</p>	<p>In the context of governance and leadership, this may give rise to quality risks relating to how a consistent culture is permeated throughout the firm, because of the dispersion of the firm and the leadership responsibilities.</p>
<p>The strategic and operational decisions and actions, business processes, and business model of the firm: The firm has a strategic goal to grow its tax practice and offer more extensive tax planning advice and support.</p>	<p>In the context of relevant ethical requirements, this gives rise to a quality risk that the firm breaches independence requirements regarding non-audit services.</p>
<p>The characteristics and management style of leadership: Given that the firm is small, leadership is concentrated to a single individual who has daily interactions with personnel.</p>	<p>In the context of engagement performance, this gives rise to a quality risk that personnel do not bring differences of opinion that involve leadership to the attention of the firm.</p>
<p>The resources of the firm, including the resources provided by service providers: The firm has per-diem accountants (independent contractors) working remotely who perform certain aspects of the firm's engagements.</p>	<p>In the context of engagement performance, this gives rise to a quality risk that the personnel are not appropriately directed and supervised and that their work is not appropriately reviewed.</p>
<p>Law, regulation, professional standards, and the environment in which the firm operates: Due to a global pandemic, engagement teams are forced to work remotely.</p>	<p>In the context of information and communication, this gives rise to a quality risk that information is not communicated to engagement teams working remotely in the right form or manner, to enable engagement teams to understand and carry out their responsibilities in performing the engagement.</p> <p>Working remotely gives rise to a quality risk that staff are not adequately supervised.</p>
<p>The types of entities for which engagements are undertaken: The firm performs compilations of financial statements for entities that operate in an industry where complex transactions occur. Typically, the compilation engagements performed by the firm are not complex.</p>	<p>In the context of engagement performance, this gives rise to a quality risk that the engagement teams performing the compilations do not undertake appropriate consultation, given that they have not previously needed to consult on complex accounting matters.</p>
<p>The types of entities for which engagements are undertaken: The firm performs engagements of entities involved in agriculture.</p>	<p>In the context of resources, this gives rise to a quality risk that personnel lack the appropriate knowledge or experience of transactions and events related to agriculture.</p>

**QUESTION 14**

**Is it necessary to document the consideration of every condition, event, circumstance, action, or inaction that may give rise to a quality risk?**

No, your firm is not required to document the consideration of every condition, event, circumstance, action, or inaction that may give rise to a quality risk. The documentation of the quality risks may include the reasons for the assessment given to the quality risks (i.e., the considered occurrence and effect on the achievement of the quality objectives).

In some circumstances, it may be appropriate for your firm to document its process and analyses for establishing the quality objectives, identifying and assessing quality risks, and designing responses to such risks, to provide a history of the basis for decisions made by your firm about its SOQM.

You can find further considerations on documentation under the documentation section of this *Tool*.

(CSQM 1 Para. 25)

## Design and Implement Responses

(CSQM 1 Paras. C16(u), 26, A25-A27 and A49-A51)

Responses that are properly designed and implemented to address the quality risks mitigate the possibility that the quality risk occurs, thereby helping your firm to achieve the quality objectives.

**QUESTION 15**

**When I am developing responses to the quality risks, what is the difference between a policy and a procedure?**

A response in relation to the SOQM can include policies **or** procedures (or a combination of both) designed and implemented to address one or more quality risks.

Policies are statements of what should, or should not, be done to address a quality risk. Such statements may be documented, explicitly stated in communications or implied through actions and decisions.

Procedures are actions to implement policies.

It is not necessary to have a policy and a procedure to address the same quality risk; it can be one or the other or a combination.

**QUESTION 16**

**Is the term “responses” equivalent to “internal controls”?**

No, responses could be policies or procedures or a combination of both.

Best practice would suggest that the terminology of CSQM 1 be used in preparing and documenting your SOQM, and to generally avoid using the term “internal controls.”

## The design and implementation of responses

CSQM 1 requires your firm to design and implement responses that properly address the quality risks. To properly address the quality risks, you need to think about the reasons for the assessments given to the quality risks, as demonstrated in the table below:

Reason for assessment	How the reason for assessment affects the design of the response
How, and the degree to which, the conditions, events, circumstances, actions or inactions affect the quality objectives	<p><b>Example:</b></p> <ul style="list-style-type: none"> <li>• A quality risk that personnel do not bring differences of opinion with leadership to the attention of the firm cannot be appropriately responded to through policies that involve the same leadership in the differences of opinion process.</li> <li>• A quality risk that engagement teams are not appropriately directed and supervised, and their work reviewed, during a global pandemic may have a significant impact on the achievement of the quality objectives because of the pervasiveness of the quality risk across the firm. Accordingly, a more robust response may be needed.</li> </ul>
The possible occurrence of the quality risks	<p><b>Example:</b></p> <p>A quality risk that there may be independence matters to consider in an engagement that may have a higher likelihood of occurring if your firm has many personnel. As a result, a more robust response may be needed.</p>

A number of factors may be considered by the firm in designing the response, particularly as it relates to the nature, timing and extent of the response.

Nature	Timing	Extent
<p>Factors that the firm may consider:</p> <ul style="list-style-type: none"> <li>• Whether the quality risk would be better addressed through a preventative activity, detective activity or a combination of both.</li> <li>• Whether a response involving technology would be a more effective means of addressing the quality risk.</li> <li>• What resources would be needed to support the response (e.g., specialized knowledge or expertise, and what information is needed).</li> <li>• Who will implement the response, such as whether it needs to be implemented at the engagement level.</li> </ul>	<p>Factors that the firm may consider:</p> <ul style="list-style-type: none"> <li>• Whether the quality risk would be better addressed through a response that is a periodic activity or ongoing activity.</li> <li>• If the response is periodic, how often it needs to occur to effectively address the quality risk.</li> </ul>	<p>Factors that the firm may consider:</p> <ul style="list-style-type: none"> <li>• Whether the response should apply to all events that the response relates to, or only a selection of events (e.g., only certain engagements).</li> </ul>

Furthermore, your firm may need to consider whether the response alone is sufficient to address the quality risk, or whether a combination of responses is needed. Your firm may also design and implement a response that addresses multiple quality risks, provided the response is sufficiently precise to effectively address each of the related quality risks.

### The relationship of responses

Responses may be related in a number of ways, such as:

- A response may address multiple quality risks across various components.
- A response may support another response in another component. This is particularly the case for responses related to resources and information and communication because these components are often needed to support the operation of other responses.

#### Example of a response that supports another response

The responses in the resources component addressing intellectual resources may be important in supporting the firm's decisions on whether to accept or continue a client relationship or specific engagement, because the firm may depend on these intellectual resources to obtain information about the engagements and the integrity and ethical values of the client.

### Responses specified by CSQM 1

(CSQM 1 Paras. 34, A116-A137)

CSQM 1 includes some specified responses that your firm is required to design and implement. Unlike the quality objectives that are set out in CSQM 1, the specified responses are not comprehensive and would not fully address all quality risks. Accordingly, you are expected to design and implement responses *in addition* to those specified in the standard, in order to fully comply with the requirements of CSQM 1.

The nature, timing and extent of the response will vary, given the nature and circumstances of your firm.

#### Example of a how the firm may consider the nature, timing, and extent of a specified response

CSQM 1 requires the firm to have the following response:

*The firm establishes policies or procedures for receiving, investigating, and resolving complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements, or non-compliance with the firm's policies or procedures established in accordance with this CSQM. (CSQM 1 Para. 34(c))*

In designing and implementing this response, your firm may consider matters such as:

- Who should receive, investigate and resolve the complaints and allegations, including whether it should be outsourced to a service provider, and whether one, or multiple individuals should be involved in the process?

- Whether law, regulation or relevant ethical requirements establish responsibilities for the firm or its personnel regarding complaints or allegations, such as an obligation on the firm or its personnel to report the matter to an authority outside the firm (e.g., under Codes of Professional Conduct).
- How complaints and allegations should be communicated.
- How confidentiality of complaints and allegations will be retained.
- How complaints and allegations should be dealt with, including when leadership should be informed, and legal counsel should be involved.

There may be circumstances when a specified response, or an aspect thereof, is not relevant to your firm because of the nature and circumstances of your firm or its engagements, in which case your firm is not expected to comply with the requirement. (See CSQM 1 Para. 17.)

### Scalability of responses

The nature, timing and extent of the responses is driven by the quality risks, which are determined based on the nature and circumstances of your firm and its engagements.

Smaller firms are likely to have different quality risks than larger and more complex firms, thereby requiring a different response, which is illustrated in the following table:

#### Example of how a response may differ between a smaller firm, and a larger and more complex firm because of the underlying quality risk

Quality risk	Response
The firm is a smaller firm with a single location. Leadership is concentrated to a single individual. This gives rise to a quality risk that the daily actions and behaviours of leadership have a significant effect on the firm's culture.	The responses may include independent coaching of firm leadership, including periodically soliciting anonymous feedback from all levels within the firm, so that there is a clear understanding of how leadership's actions and behaviours are affecting the firm, and how they may be improved to achieve the desired culture.
The firm is a larger firm with multiple locations, and multiple layers within the leadership structure. This gives rise to a quality risk that a consistent culture is not permeated throughout the firm.	The responses may include establishing firm values in a code of conduct, undertaking firm-wide formal communications that emphasize the importance of quality, formal periodic culture assessments and regular leadership meetings that discuss key messages, decisions, and actions.

## Identify Information Indicating the Need for Additions or Modifications to the Quality Objectives, Quality Risks or Responses

(CSQM 1 Paras. 27, A52-A54)

Establishing quality objectives, quality risks or responses is not a one-time exercise. The quality objectives, quality risks or responses may need to change as a result of:

- Changes in the nature and circumstances of your firm or its engagements
- Remedial actions to address deficiencies in your firm's SOQM

### Additions or modifications to the quality objectives, quality risks or responses

Your firm may identify information that indicates that additional or modified quality objectives, quality risks or responses, are needed due to changes in the nature and circumstances of your firm or its engagements. The following additions or modifications may be needed:

Quality objectives	Quality risks	Responses
<ul style="list-style-type: none"> <li>• New quality objectives may be needed.</li> <li>• Additional quality objectives established by the firm may no longer be needed or may need to be modified.</li> <li>• Sub-objectives established by the firm may no longer be needed or may need to be modified.</li> </ul> <p>However, the quality objectives required by the standard may not be modified or removed unless paragraph 17 of CSQM 1 becomes applicable (i.e., the quality objective is no longer relevant).</p>	<ul style="list-style-type: none"> <li>• New quality risks may be identified.</li> <li>• Existing quality risks may no longer qualify as quality risks.</li> <li>• Existing quality risks may need to be modified.</li> <li>• Existing quality risks may need to be reassessed.</li> </ul>	<ul style="list-style-type: none"> <li>• New responses may be designed and implemented.</li> <li>• Existing responses may be discontinued.</li> <li>• Existing responses may need to be modified.</li> </ul> <p>Specified responses required by the standard need to be designed and implemented by the firm, although the firm may determine it appropriate to modify <b>how</b> they are designed and implemented. The specified responses may not be discontinued unless paragraph 17 of CSQM 1 becomes applicable (i.e., the response is no longer relevant).</p>

### How your firm identifies information indicating the need for additions or modifications to the quality objectives, quality risks or responses

(CSQM 1 Paras. 27 and A52)

CSQM 1 does not prescribe how frequently a firm should re-evaluate its quality objectives, quality risks, and responses because they are proactively modified when changes affecting the SOQM occur, or when deficiencies are identified.

In a smaller firm, you may have informal policies or procedures to identify information about changes in the nature and circumstances of your firm or its engagements, particularly when the individual(s) responsible for establishing quality objectives, identifying and assessing quality risks, and designing and implementing responses is able to identify such information in the normal course of their activities.

There are two mechanisms in CSQM 1 through which your firm identifies information indicating the need for additions or modifications to the quality objectives, quality risks or responses:

**The firm has policies or procedures, which are part of the firm's risk assessment process, to identify information, which indicates the need for changes to the quality objectives, quality risks or responses, related to changes in the nature and circumstances of the firm.**

**Example:**

A global pandemic occurs, prompting engagements to be performed remotely. This may give rise to a number of additional quality risks or changes in the assessment of quality risks. For example, in the context of engagement performance, it could increase the assessment of quality risks regarding inappropriate direction, supervision and review.

**The firm's monitoring and remediation process provides information about deficiencies related to the quality objectives, quality risks or responses.**

**Example:**

A deficiency is identified whereby engagement documentation in a digital format was not properly uploaded to an application on the firm's server, due to power outages. This resulted in a loss of engagement documentation. The firm amends its responses by installing backup generators to support the continual functioning of the firm's servers during power outages.

## Evaluating the SOQM

(CSQM 1 Paras. 53-56 and A187-A201)

CSQM 1 requires your firm to complete an evaluation of the SOQM and periodic performance evaluations of the individual(s) assigned ultimate responsibility and accountability for the SOQM, and the individual(s) assigned operational responsibility for the SOQM.

The evaluation of the SOQM would be taken into account in completing the performance evaluation of the individuals.

In your firm, the individual(s) assigned ultimate responsibility and accountability for the SOQM may be directly involved in the monitoring and remediation. That individual may therefore be aware of the information that supports the evaluation of the SOQM. As a result, fewer policies and procedures may be required related to the evaluation of the SOQM.

In addition, your firm will undertake periodic performance evaluations of the individual(s) assigned ultimate responsibility and accountability for the SOQM, and the individual(s) assigned operational responsibility for the SOQM. The evaluation of the SOQM would be taken into account in the performance evaluation. If there are a limited number of people involved in the SOQM in your firm, or you are a sole practitioner, this will be more a matter of reflection and documentation. (See CSQM 1 Paras. 56 and A199-A201.)

You may consider whether it would be appropriate to engage a service provider to perform the SOQM evaluation or support you in resolving the results of your firm’s monitoring activities. Such actions may provide an indication of the performance of the individual(s) involved in maintaining and enforcing the SOQM.

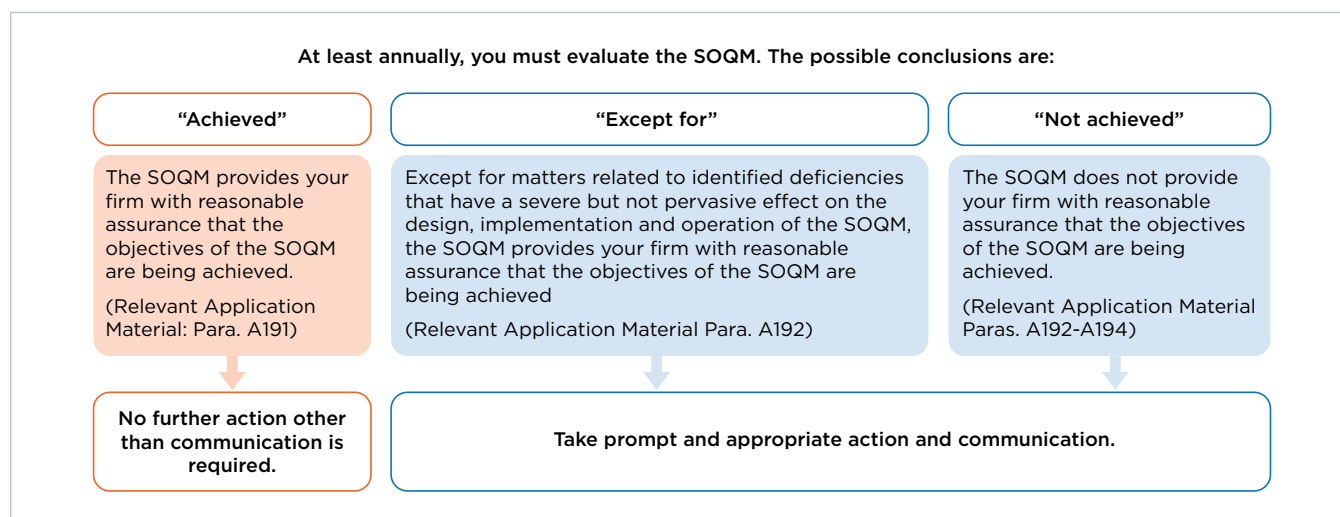
Periodic performance evaluations promote accountability. In considering the performance of an individual, your firm may take into account:

- The results of your firm’s monitoring activities for aspects of the SOQM that relate to the responsibility of the individual. In some circumstances, your firm may set targets for the individual and measure the results of the monitoring activities against those targets.
- The actions taken by the individual in response to identified deficiencies that relate to the responsibility of that individual, including the timeliness and effectiveness of such actions.

## Conclusions on evaluation of the SOQM

CSQM 1 allows for three possible conclusions on the evaluation of the SOQM:

FIGURE 6



## Timing of the evaluation

After an SOQM is first implemented, the first evaluation of the SOQM needs to be completed within one year of the implementation date. Consider that CSQM 1 is effective for related services engagements beginning December 15, 2023. For example, if your firm finishes the implementation of the SOQM by December 14, 2023, the first evaluation of the SOQM would need to be completed no later than December 13, 2024.

The point in time at which the evaluation is undertaken may depend on the circumstances of your firm and may coincide with the fiscal year-end of your firm or the completion of an annual monitoring cycle.

The evaluation of the SOQM is discussed in more detail in [Appendix I](#) of this *Tool*.



## Documentation

(CSQM 1 Paras. 57-60 and A202-A206)

**Documentation** – The SOQM will be different for each firm, and documentation of the system may take different forms.

CSQM 1 does not prescribe every matter that needs to be documented by your firm, because the nature and extent of documentation will vary as a result of a number of factors, including the size and complexity of your firm and the types of engagements performed by your firm.

CSQM 1 requires your firm to prepare documentation to achieve three principles:

- Support a consistent understanding of the SOQM by personnel, including an understanding of their roles and responsibilities with respect to the SOQM and the performance of engagements.
- Support the consistent implementation and operation of the responses.
- Provide evidence of the design, implementation and operation of the responses to support the evaluation of the SOQM by those assigned ultimate responsibility and accountability for the SOQM.

Documentation is important because:

- It helps personnel understand the SOQM and what is expected of them, so that they are able to perform engagements, and fulfill their roles and responsibilities with respect to your SOQM.
- It enables the responses to be implemented and operated in the manner intended.
- It helps your firm retain organizational knowledge and the basis for why decisions related to the SOQM were made.
- It helps your firm monitor the SOQM and provides information so that leadership is able to evaluate and conclude on the SOQM.
- It establishes accountability for your firm by evidencing that your firm has designed, implemented, and operated an SOQM in accordance with CSQM 1 and applicable legal and regulatory requirements.
- It helps external oversight authorities in fulfilling their duties in inspecting your firm's SOQM, which is an important element to the financial reporting ecosystem.

Your SOQM may change and evolve over time. Retaining documentation of the SOQM and how it is designed may be important to explaining how the SOQM was designed at a point in time. For example, documentation of the SOQM at a point in time may be important when there are investigations or lawsuits.

Over and above applying these principles, CSQM 1 requires your firm to prepare documentation addressing specific matters. This includes a requirement to document the following related to your firm's risk assessment process:

- The quality objectives
- The quality risks
- A description of the responses and how your firm's responses address the quality risks

CSQM 1 suggests that, in documenting how your firm's responses address the quality risks, your firm may document the reasons for the assessment given to the quality risks (i.e., the possible occurrence and effect on the achievement of one or more quality objectives). (See CSQM 1 Para. A205.)

## What Can You Do to Prepare?

As indicated below, the first step in understanding how to apply CSQM 1 is to read the full standard, including the application and other explanatory material, and additional resources, as needed. The following suggested steps are linear to give you an idea on how to prepare, but remember – the process will be continual and iterative. The following steps will help you develop a “project plan” for the implementation of your SOQM.

You may be doing this implementation by yourself, but if your firm has multiple partners, a committee of the partners may be more effective.

## Getting started

When thinking of implementation, you can start by considering the following:

- If you have policies and procedures, how the requirements of CSQM 1 affect them (including how they relate to a quality objective or risk under CSQM 1) and what needs to be revised
- If you do not have policies and procedures, the nature of your firm and your engagements



### QUESTION 17

**What if during the process of adopting CSQM 1 current policies and procedures are not complete? Must I have all aspects of CSQM 1 in place before the effective date?**

Yes, you would need to make sure there are no significant omissions.

A significant omission could include:

- No policy or procedure for a component
- A policy or procedure that exists but is not formally documented

However, the policies and procedures will continue to evolve and improve over time. For example, if you determine that you need to build a new performance appraisal system to evaluate staff, and you think it will take some time to develop, build the best response you can before the effective date, based on the quality risks identified.

You will not be required to monitor your SOQM until one year after implementation, so you will have an opportunity to improve and remediate as needed. It is a continual process.

It would be efficient to note any improvements identified upon implementation along with a plan for improvements.

### Some steps to help you prepare

The following steps will help you prepare:

Step 1 – Read CSQM 1 (and CSQM 2, if applicable) in full and other materials as relevant.

Step 2 – Prepare a listing of all related services by category and partner, if applicable.

Step 3 – Brainstorm on quality objectives and risks.

Step 4 – Set up a plan for implementation, including the assignment of responsibilities to meet the requirements of CSQM 1.

Step 5 – Identify existing processes within your firm that address each quality objective and risk (or identify gaps where processes may be missing). In some cases, the processes may not be documented in a formal way, so it may help to walk through how you meet quality objectives right now.

Step 6 – Consider whether there are any more precise or granular quality risks to be identified.

Step 7 – Design any new responses needed to address the objectives / risks.

Step 8 – Implement the new responses.



#### QUESTION 18

**If your firm has multiple partners or staff, can a brainstorming session be helpful?**

Yes, a brainstorming session may be useful.

If you have partners and staff, you may want to create a meeting to identify and collect the quality risk factors for your firm. Start with the required quality objectives in the standard.

At first, keep the discussion open ended. For example, a good way to start may be: “What factors contribute to our not meeting the quality objectives?”

## Some additional practical tips on the implementation of CSQM 1

- Identify the policies or procedures you already have in place to address quality risks.
- You may take a phased-in approach to implementation, building up to the effective date. For example, this may entail designing and implementing policies or procedures for certain components and commencing the operation of those policies or procedures at various stages before the effective date. In this case, your firm would establish its own effective date for each of the policies or procedures.
  - This approach may lessen the impact of many changes all at once.
  - Although your firm would have implemented policies or procedures before the effective date, your firm would not be considered as “early adopting” CSQM 1 because only a portion of the new SOQM has been implemented.
- You may commence operation of all the new and revised policies or procedures at the effective date.
- You may pilot or test the new SOQM prior to the effective date. The pilot, or testing, may be on certain areas of the SOQM, or by a selection of engagements teams.

The SOQM would not be considered to be in operation until you have formally implemented and commenced operation of the new SOQM in its entirety.

## Additional Resources

CPA Canada has developed a specific landing page on its website to house additional resources, which can be found at: [Quality management guidance resources](#)

CPA Canada publications include:

- [New quality management suite of standards: Practitioner alert](#)
- [Practitioner’s pulse \(June 2021\): New suite of quality management standards](#)

The International Auditing and Assurance Standards Board (IAASB) has also developed resources to support the implementation of the quality management standards by practitioners. These resources can be found at [Quality Management | IFAC \(iaasb.org\)](#).

## Appendix A – Governance and Leadership (Component 2)

(CSQM 1 Paras. 28, A55-A61)

Governance and leadership are of paramount importance to quality management at your firm and at the engagement level, because it reflects the way in which your firm:

- Embeds its culture and ethics
- Self-regulates
- Makes decisions (governance and leadership serve as the framework)

### Quality objectives

CSQM 1 requires your firm to establish the following quality objectives that address your firm's governance and leadership, which establishes the environment that supports the SOQM:

- Your firm demonstrates a commitment to quality through a culture that exists throughout your firm, which recognizes and reinforces:
  - Your firm's role in serving the public interest by consistently performing quality engagements
  - The importance of professional ethics, values and attitudes
  - The responsibility of all personnel for quality relating to the performance of engagements or activities within the SOQM, and their expected behaviour
  - The importance of quality in your firm's strategic decisions and actions, including your firm's financial and operational priorities
- Leadership is responsible and accountable for quality.
- Leadership demonstrates a commitment to quality through their actions and behaviours.
- The organizational structure and assignment of roles, responsibilities and authority are appropriate to enable the design, implementation and operation of your firm's SOQM.
- Resource needs, including financial resources, are planned for and resources are obtained, allocated or assigned in a manner that is consistent with your firm's commitment to quality.

**Your firm's culture is important for both sole practitioners and firms with partners and/or staff. The following professional values and attitudes generally apply to all firms:**

Professional value and attitude	Sole practitioner – Personal attributes and attitudes	Firm with partners and/or staff – “Tone at the top”
<b>Professional manner</b> – timeliness, courteousness, respect, accountability, responsiveness, and dependability	✓	✓
<b>Commitment to teamwork</b>		✓

**Your firm's culture is important for both sole practitioners and firms with partners and/or staff. The following professional values and attitudes generally apply to all firms:**

Maintaining an <b>open mind to new ideas or different perspectives</b> in the professional environment	✓	✓
Pursuit of <b>excellence</b>	✓	✓
A commitment to continual improvement (e.g., <b>setting expectations beyond the minimum requirements</b> and placing a focus on <b>continual learning</b> )	✓	✓
<b>Social responsibility</b>	✓	✓

**How your firm (i.e., a firm with partners and/or staff) demonstrates a commitment to quality through its culture**

*(If you are a sole practitioner, you may still find some of these points relevant.)*

**Embedding a commitment to quality throughout your firm may be achieved through a number of responses, such as the following:**

#### **Tone at the top**

CSQM 1 deals with the tone at the top through the various requirements across CSQM 1 addressing leadership:

- The requirements that specify the responsibilities that need to be assigned, and who these need to be assigned to
- Leadership's responsibility for understanding CSQM 1
- Leadership's responsibility and accountability for quality
- Leadership's responsibility for evaluating and concluding on the effectiveness of the SOQM
- Leadership's performance evaluations

#### **Examples of actions leadership may take:**

- Establishing trust through consistent, regular and open communication
- Providing transparency within your firm about actions to address quality, and the effectiveness of those actions
- Establishing the desired culture through the direct interaction of firm leadership with other personnel

**Embedding a commitment to quality throughout your firm may be achieved through a number of responses, such as the following:**

**Commitment to quality by all personnel**

CSQM 1 deals with the actions and behaviour of personnel and their commitment to quality through the following quality objectives:

- Reinforcing the responsibility of all personnel for quality relating to the performance of engagements or activities within the SOQM, and their expected behaviour
- As part of resources, personnel being expected to demonstrate a commitment to quality through their actions and behaviours, develop and maintain the appropriate competence to perform their roles, and being held accountable or recognized through timely evaluations, compensation, promotion and other incentives

**Examples of actions that your firm may take to address personnel's commitment to quality:**

- Establishing a code of conduct
- Defining how quality will be measured and incorporating quality-related measures in personnel evaluations, with associated effects on compensation and promotion
- Establishing developmental opportunities for personnel that reinforce quality

**Embedding quality in your firm's strategic decisions and actions, including your firm's financial and operational priorities**

Quality management is not a separate function of your firm. To be effective, a culture that demonstrates a commitment to quality needs to be integrated with your firm's strategy, operational activities and business processes.

Strategic decisions and actions may include your firm's:

- Business strategy
- Financial goals
- Management of resources
- Growth of market share
- Industry specialization
- New service offerings

An example of how to embed quality into your firm's strategic decisions and actions is how you communicate the purpose and values of your firm and ensure that these recognize quality. Communication can be achieved through various means, including posts on your website or publications.

**TIP:** Take a look at your website and other communications to see how your commitment to quality is communicated to others.

### **Culture and other aspects of the SOQM**

Given the pervasive nature of your firm's culture, many other aspects of the SOQM reinforce your commitment to quality. The evidence of the commitment to quality can be demonstrated by the following examples:

- Implementing a robust process or system for supporting decisions about the acceptance and continuance of client relationships and specific engagements may contribute to your firm's tone regarding quality.
- Your firm's policies or procedures addressing consultation encourage consultation on difficult or contentious issues and reinforce the importance and benefit of consultation, which may help emphasize the importance of quality.



## Appendix B – Relevant Ethical Requirements (Component 3)

(CSQM 1 Paras. C16(Ct), 29, 34, A22-A24, CA62-A66 and A117-A121)

The relevant ethical requirements are set out in the applicable rules of professional conduct and/or code of ethics issued by the various professional accounting bodies. All CPAs must follow the relevant ethical requirements, and what is a relevant requirement depends on the situation and the type of engagement.



### QUESTION 19

**If my firm does not complete assurance engagements, are there any “relevant ethical requirements”?**

Yes, practitioners should refer to the rules of professional conduct / code of ethics applicable in their respective jurisdictions. There are some rules that are relevant to members, students and firms regardless of the type of engagement.

For example, CSRS 4200 requires the practitioner to comply with relevant ethical requirements that establish the fundamental principles of professional ethics, which include:

- Integrity
- Objectivity
- Professional competence and due care
- Confidentiality
- Professional behaviour

Neither CSRS 4200 nor the ethical requirements require you to be independent of the entity for a compilation engagement. However, when you may be seen by a reasonable observer as lacking independence, disclosure in the compilation engagement report is required.

(CSRS 4200 Paras. 20 and A7-A8)



### QUESTION 20

**Does CSQM 1 define relevant ethical requirements?**

Yes, CSQM 1 includes the following definition:

**Relevant ethical requirements** – Ethical requirements to which the engagement team and engagement quality reviewer are subject, which comprise relevant independence and other ethical requirements set out in rules of professional conduct / code of ethics applicable to the practice of public accounting issued by the various professional accounting bodies.

Additionally, a reference to relevant ethical requirements is also included in the definition of professional standards:

**Professional standards** – Assurance Engagement Standards, as defined in the *Handbook*, and relevant ethical requirements.

(CSQM 1 Para. C16)

## Quality objectives

CSQM 1 requires your firm to establish the following quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to independence.

- Your firm and its personnel:
  - understand the relevant ethical requirements to which your firm and your firm's engagements are subject
  - fulfill their responsibilities in relation to the relevant ethical requirements to which your firm and your firm's engagements are subject
- Others, including service providers, who are subject to the relevant ethical requirements to which your firm and your firm's engagements are subject:
  - understand the relevant ethical requirements that apply to them
  - fulfill their responsibilities in relation to the relevant ethical requirements that apply to them

## Responsibility regarding the relevant ethical requirements that apply to others (e.g., service providers)

**Reminder:** Your firm may use service providers. For example, you may use independent contractors or remote contractors for file preparation, an external monitor, etc. The ethical requirements may extend to these parties.

Given that parties external to your firm may be involved in the performance of engagements or various activities in the SOQM, your firm has a responsibility to address the relevant ethical requirements that apply to those parties.

Your firm is responsible for the relevant ethical requirements that apply to others in the context of your firm and your firm's engagements only.

The responses designed and implemented by your firm to address others' fulfillment of relevant ethical requirements will likely differ from the responses designed and implemented by your firm to address personnel's fulfillment of relevant ethical requirements. For example, in relation to understanding the relevant ethical requirements:

- Your personnel may be subject to regular training on the relevant ethical requirements.
- For service providers, you may include the specific relevant ethical requirements in the terms of the contract (e.g., confidentiality requirements).

## Responses to address quality risks related to relevant ethical requirements

(CSQM 1 Paras. 34(a) and A117-119)

You will need to design and implement responses to address the quality risks related to relevant ethical requirements. CSQM 1 includes specified responses related to the relevant ethical requirements.

You must establish responses for identifying, evaluating and addressing threats to compliance with relevant ethical requirements. In addition, your responses must address identifying, communicating, evaluating and reporting of any breaches of the relevant ethical requirements and respond to the cause and consequence of the breaches in a timely manner.

Matters that you may address relating to breaches of the relevant ethical requirements include:

- The communication of breaches of the relevant ethical requirements to appropriate personnel, if appropriate
- The evaluation of the significance of a breach and its effect on compliance with relevant ethical requirements
- The actions to be taken to satisfactorily address the consequences of a breach, including that such actions be taken as soon as practicable
- Determining whether to report a breach to internal or external parties, such as those charged with governance (TCWG), if applicable, of the entity to which the breach relates or an external oversight authority
- Determining the appropriate actions to be taken in relation to the individual(s) responsible for the breach

You will need to design and implement policies or procedures for dealing with complaints and allegations, which may assist you in preventing inappropriate engagement reports from being issued. These policies may also assist you in:

- Identifying and dealing with individuals who do not act or behave in a manner that demonstrates a commitment to quality and supports your commitment to quality
- Identifying deficiencies in the SOQM

The topic of complaints and allegations is also addressed in [Appendix H](#) of this *Tool*.

## Sample responses

CSQM 1 includes a required response related to compliance with relevant ethical requirements. Some examples of policies and procedures are included below:

Quality risks	Required responses from CSQM 1 para. 34(a) and (b)	Example of sample policies or procedures
<p>You may fail to identify, evaluate or address relevant ethical requirements.</p>	<p>You need to establish policies or procedures for:</p> <ul style="list-style-type: none"> <li>• Identifying</li> <li>• Evaluating</li> <li>• Addressing threats to compliance with the relevant ethical requirements</li> </ul>	<p>Policy – “The firm will identify, evaluate and address compliance with relevant ethical requirements for all related services.”</p> <p>Procedure – Using a memorandum or checklist for all engagements, which results in the documentation of inquiry and procedures to identify all threats and safeguards for independence.</p>
<p>You may fail to identify, communicate, evaluate, or report ethical breaches.</p>	<p>Identifying, communicating, evaluating, and reporting any breaches of the relevant ethical requirements and appropriately responding to the causes and consequences of the breaches in a timely manner</p>	<p>Policy – “The firm will report any breaches of the relevant ethical requirements and related actions taken to resolve the breach on a timely basis.”</p> <p>Procedure – The firm’s partners (or management committee) review(s) all reported ethical breaches to identify remedial actions needed. The management committee communicates these actions to the affected parties and follows up within 30 days to determine whether the identified actions have been performed.</p>
<p>You may fail to identify, evaluate or address relevant requirements specifically related to independence matters that may need to be disclosed.</p>	<p>You will obtain, at least annually, a documented confirmation of compliance with independence requirements from all personnel required by relevant ethical requirements.</p>	<p>Policy – “The firm will, on an annual basis, obtain written confirmation from personnel or service providers as required by this SOQM.”</p> <p>Procedure – An independence letter is obtained and filed in personnel records of all employees as part of the annual performance review.</p>
<p>Your independence may be influenced by gifts from management or the client.</p>	<p>You may consider a policy related to hospitality, gifts, gratuity, etc., to reduce the risk of real or perceived independence.</p>	<p>Policy – “The firm’s personnel shall not accept any hospitality, gift, gratuity, discount, or other accommodation from a client unless it is clearly inconsequential and trivial to both parties.”</p> <p>Procedure – Regularly review, through inquiry and written confirmation, that personnel have not received any gifts, etc., as directed by the SOQM.</p>

## Complaints and allegations of failure to meet professional standards

Establishing policies or procedures for dealing with complaints and allegations may assist you in preventing inappropriate engagement reports from being issued. It also may assist your firm in:

- Identifying and dealing with individuals who do not act or behave in a manner that demonstrates a commitment to quality and supports your commitment to quality
- Identifying deficiencies in the SOQM

### Sample responses

CSQM 1 includes a required response related to receiving, investigating and resolving complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements, or non-compliance with your SOQM.

A sample response is included below:

Quality risks	Specific response (CSQM 1 Para. 34(c))	Example of sample policies or procedures
<p>You may fail to follow up on a complaint or allegation of non-compliance.</p>	<p>You need to establish policies or procedures for receiving, investigating, and resolving complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements, or non-compliance with your SOQM.</p>	<p>Policy - "The firm requires staff, clients, suppliers, regulators and other third parties to report complaints or allegations concerning:</p> <ul style="list-style-type: none"> <li>• Work performed that fails to comply with the SOQM.</li> </ul> <p>Concerns may be raised orally or in writing."</p> <p>Procedure - A survey is circulated to clients annually to inquire about services rendered and to collect other feedback.</p>

## Appendix C – Acceptance and Continuance of Client Relationship (Component 4)

(CSQM 1 Paras. 30, 34, A67-CA74, and A122-A123)

CSQM 1 includes requirements to establish quality objectives addressing the acceptance and continuance of client relationships or specific engagements.

### Quality objectives

It is your judgment to determine whether to accept or continue the client relationship or specific engagement.

CSQM 1 requires your firm to establish the following quality objectives that address the acceptance and continuance of client relationships and specific engagements:

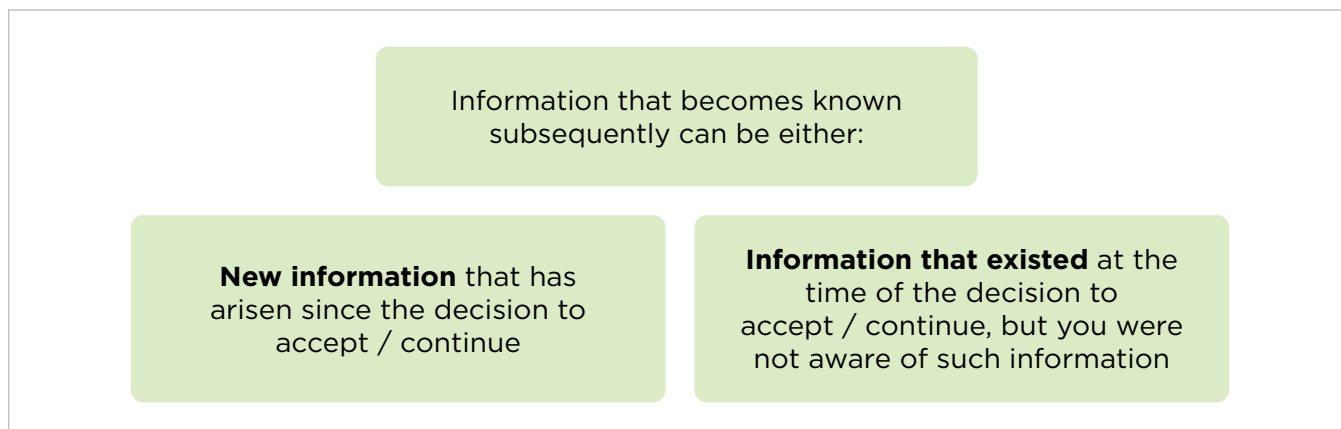
- Judgments by your firm about whether to accept or continue a client relationship or specific engagement are based on:
  - Information obtained about the nature and circumstances of the engagement and the integrity and ethical values of the client (including management, and, when appropriate, TCWG) that is sufficient to support such judgments
  - Your firm’s ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements
- The financial and operational priorities of your firm do not lead to inappropriate judgments about whether to accept or continue a client relationship or specific engagement.

### Information becomes known subsequent to acceptance / continuance decision

(CSQM 1 Para. 34(d))

CSQM 1 requires you to address circumstances when you become aware of information subsequent to accepting or continuing a client relationship or specific engagement that would have caused you to decline the client relationship or specific engagement had that information been known prior to accepting or continuing the client relationship or specific engagement.

FIGURE 7



The following matters may be addressed in your policies or procedures for circumstances when information becomes known subsequently:

- Undertaking consultation with others or with legal counsel
- Considering whether there is a professional, legal or regulatory requirement for you to continue the engagement
- Discussing with the appropriate level of the client's management and with TCWG or the engaging party the action that you might take based on the relevant facts and circumstances
- Informing the client's management and TCWG, if applicable, or the engaging party of this decision and the reasons for the withdrawal when it is determined that withdrawal is an appropriate action

### Information for making a decision whether to accept or continue a client relationship

In making your decision on whether to accept or continue a client relationship or specific engagement the following factors are relevant:

- Information about the nature and circumstance of the engagement
- Information about the integrity and ethical values of the client

Information source	Factors affecting nature and extent of information obtained
Information obtained about the <b>nature and circumstances of the engagement</b> (CSQM 1 Para. A67)	<ul style="list-style-type: none"> <li>• The industry, including relevant regulatory factors</li> <li>• The nature of the entity, including its:               <ul style="list-style-type: none"> <li>– operations</li> <li>– organizational structure</li> <li>– ownership and governance</li> <li>– business model</li> <li>– the way it is financed</li> </ul> </li> <li>• The nature of the underlying <b>subject matter</b> and the applicable criteria, which would normally be financial information</li> </ul>

Information source	Factors affecting nature and extent of information obtained
<p>Information obtained to support your judgment about the <b>integrity and ethical values of the client</b></p> <p>(CSQM 1 Para. A68)</p>	<ul style="list-style-type: none"> <li>• The identity and business reputation of the client's principal owners, key management and TCWG, if applicable</li> <li>• The nature of the entity for which the engagement is being performed, including the complexity of its ownership and management structure</li> <li>• The nature of the client's operations, including its business practices</li> <li>• Information concerning the attitude of the client's principal owners, key management and TCWG, if applicable, towards such matters as accounting and the internal control environment</li> <li>• Indications that the client is aggressively concerned with maintaining fees as low as possible</li> <li>• Indications of a client-imposed limitation in the scope of work</li> <li>• Indications that the client might be involved in money laundering or other criminal activities</li> <li>• The reasons the client is changing its professional services provider</li> <li>• The identity and business reputation of related parties</li> </ul>

### Internal and external sources of information

Information can be obtained as follows:

- *Existing client* – information from current or previous engagements, if applicable, or inquiry of other personnel who have performed other engagements for the client
- *New client* – inquiry of existing or previous service providers, if deemed necessary, and discussions with other third parties, such as bankers, legal counsel and industry peers
- Background searches of relevant databases or websites

### Your ability to perform the engagement

(CSQM 1 Paras. 30(a)(ii) and A72)

Your ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements may be affected by:

- The availability of appropriate resources to perform the engagement
- Having access to information to perform the engagement, or to the persons who provide such information
- Your ability to fulfill your responsibilities in relation to the relevant ethical requirements



Factors you may consider in determining whether appropriate resources are available to perform the engagement:

- The circumstances of the engagement and the reporting deadline
- The availability of individuals with the appropriate competence and capabilities, including sufficient time, to perform the engagement. This includes having:
  - individuals to take overall responsibility for directing and supervising the engagement
  - individuals with knowledge of the relevant industry or the underlying subject matter or criteria to be applied in the preparation of the subject matter information and experience with relevant regulatory or reporting requirements
- The availability of experts, if needed
- The need for technological resources – for example, IT applications that enable the engagement team to perform procedures on the entity's data
- The need for intellectual resources – for example, a methodology, industry or subject matter-specific guides, or access to information sources

### Acceptance and continuance and your financial and operational priorities

(CSQM 1 Paras. 30(b) and A73-CA74)

Financial priorities may focus on your profitability, and fees obtained for the performance of engagements have an effect on your financial resources. As discussed in [Appendix A](#) of this *Tool*, operational priorities may include strategic focus areas, such as:

- Growth of market share
- Industry specialization
- New service offerings



#### QUESTION 21

#### **Should I consider the fee I can receive for the service in my decision to accept (or continue) a related services engagement?**

Yes, the fee being charged can be a factor in the decision to accept or continue a related services engagement.

There may be circumstances when the fee quoted for an engagement is not sufficient, given the nature and circumstances of the engagement, and accepting such engagement may diminish your ability to perform the engagement in accordance with the rules of professional conduct / code of ethics. The rules of professional conduct / code of ethics applicable to the practice of public accounting issued by the various professional accounting bodies include rules regarding fees, including circumstances that may create a threat to the practitioner's compliance with fundamental principles of professional competence, integrity and due care if the fee quoted for an engagement is too low. In the case of a compilation engagement, it may be considered such a serious threat to independence that disclosure in the compilation engagement report is required.

(CSQM 1 Paras. A73-CA74)

## Responses to address quality risks related to acceptance and continuance

You will need to design and implement responses to address the quality risks related to acceptance and continuance requirements. These responses may:

- Specify the information that needs to be gathered about the nature and circumstances of the engagement and the integrity and ethical values of the client (including management, and TCWG, when appropriate). In some cases, the policies or procedures may also suggest or specify where the information needs to be sourced from.
- Set out factors to be considered in determining whether you are able to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.
- Specify (or prohibit) the types of engagements that may be performed. For example, you may create a policy(ies) that you will not perform:
  - any assurance engagements
  - engagements related to certain subject matter when you do not have appropriate expertise to perform engagements over that subject matter
  - engagements for entities operating in certain industries (e.g., emerging industries)
  - engagements for entities in industries where your firm does not have experience and cannot easily develop relevant knowledge

### Sample responses

CSQM 1 includes a requirement for a specified response related to the accept/continue decision. A sample response is included below:

Quality risks	Specific response (CSQM 1 Para. 34(d))	Examples of sample policies or procedures
<p>You accept a client or specific engagement. Subsequently, it is concluded that you might have declined the client or engagement due to poor integrity of management, resource limitations or other matters.</p>	<p>You need to establish policies or procedures to address circumstances when you become aware of information subsequent to accepting or continuing a client relationship or specific engagement that would have caused you to decline the client relationship or specific engagement had that information been known prior to accepting or continuing the client relationship or specific engagement.</p>	<p>Policy – “In addition to the ethical requirements the firm will not accept or continue a relationship or specific engagement where the firm:</p> <ul style="list-style-type: none"> <li>• does not have the competencies or capabilities, (including time and resources) necessary to perform the engagement;</li> <li>• has information that would lead it to conclude that the client lacks integrity; and/or</li> <li>• has identified and assessed risk factors associated with the engagement that are outside the acceptable limits.”</li> </ul> <p>Procedure – Using a memorandum or checklist for engagements, which results in the documentation of inquiry and procedures to identify factors related to the firm’s acceptance and continuance decisions. Prior to finalizing an engagement report, this memorandum should be reviewed and updated as needed.</p>

## Appendix D – Engagement Performance (Component 5)

(CSQM 1 Paras. 31, A75-A85)

CSQM 1 includes a requirement to establish quality objectives addressing engagement performance, which include consultation, differences of opinion and addressing the assembly, maintenance, and retention of engagement documentation.

### Quality objectives

CSQM 1 requires your firm to establish the following quality objectives that address the performance of quality engagements:

- Engagement teams understand and fulfill their responsibilities in connection with the engagements, including, as applicable, the overall responsibility of engagement partners for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement.
- The nature, timing and extent of direction and supervision of engagement teams and review of the work performed is appropriate, based on the nature and circumstances of the engagements and the resources assigned or made available to the engagement teams, and the work performed by less experienced engagement team members is directed, supervised and reviewed by more experienced engagement team members.
- Engagement teams exercise appropriate professional judgment and, when applicable to the type of engagement, professional skepticism.
- Consultation on difficult or contentious matters is undertaken, and the conclusions agreed are implemented.
- Differences of opinion within the engagement team or between the engagement team and the engagement quality reviewer or individuals performing activities within your firm's SOQM are brought to the attention of your firm and resolved.
- Engagement documentation is assembled on a timely basis after the date of the engagement report and is appropriately maintained and retained to meet the needs of your firm and comply with law, regulation, relevant ethical requirements, or professional standards.

In your firm:

- There may be no engagement team members other than the engagement partner (e.g., in the case of a sole practitioner). In such cases, the quality objectives addressing direction, supervision and review may not be relevant.
- You may not have personnel internally that have the competence and capabilities to provide consultations. You may determine it appropriate to make use of a service provider for the purposes of consulting on difficult or contentious matters.
- You may not have personnel who are responsible for dealing with differences of opinion, so you may determine it appropriate to make use of a service provider for the purposes of resolving differences of opinion.

**CSQM 1 often refers to a “service provider.” A service provider (or others) in your practice may include:**

- Subject matter experts
- Independent or remote contractors
- Individuals who provide monitoring services

See also [Appendices E](#) and [F](#)

### **How you address engagement teams exercising appropriate professional judgment and, when applicable to the type of engagement, professional skepticism**

You may design and implement a number of responses to address professional judgment and professional skepticism that are related to the other quality objectives in the engagement performance section, including responses dealing with direction, supervision and review, consultation and differences of opinion.

### **Examples of aspects of the SOQM that may support engagement teams in exercising appropriate professional judgment and professional skepticism**

- Taking robust actions to embed a culture that demonstrates commitment to quality
- Leadership taking responsibility and accountability for quality and demonstrating their commitment to quality through their actions and behaviours
- Assigning appropriate resources to engagements, including human resources, technological resources, and financial resources (e.g., the engagement team may need financial resources for the purposes of engaging an expert or to physically visit certain locations)
- Developing appropriate intellectual resources, including creating alerts for engagement teams on circumstances that are giving rise to the need for professional judgment and professional skepticism and providing guidance for engagement teams in these circumstances
- Managing the assignment of personnel to engagements, including ensuring they have adequate time to perform their work and fulfill their responsibilities
- Making appropriate judgments about accepting and continuing engagements, such as considering whether you have appropriate resources to perform the engagement, and whether you have the time to undertake the engagement given other commitments
- Providing appropriate training, if appropriate

## Appendix E – Resources (Component 6)

Human Resources (CSQM 1 Paras. 32(a-e), A88-A97)

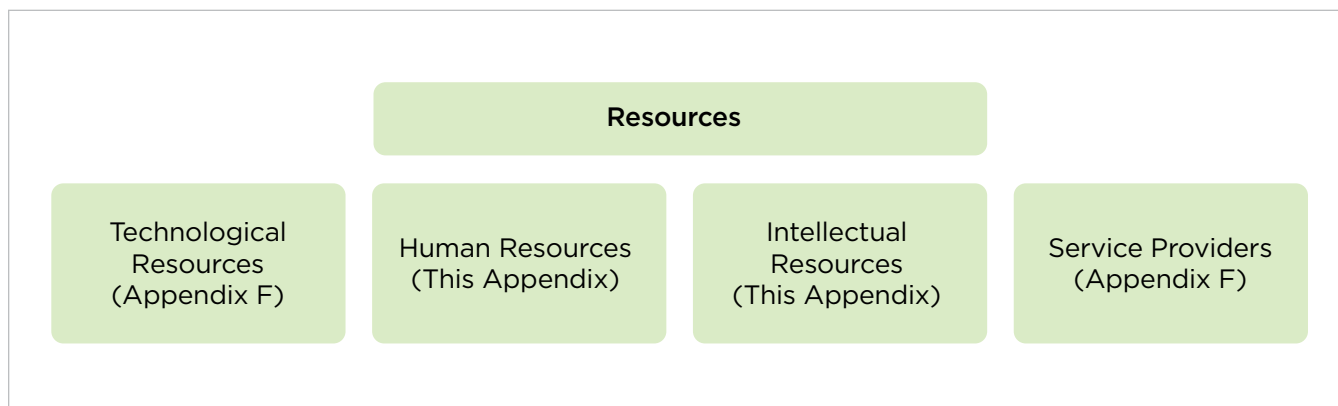
Intellectual Resources (CSQM 1 Paras. 32(g), A102-A104)

CSQM 1 includes the requirement to establish quality objectives addressing

- Obtaining
- Developing
- Using
- Maintaining
- Allocating
- Assigning resources in a timely manner to enable the design, implementation and operation of the SOQM

Resources are divided into four categories as follows:

**FIGURE 8**



Your firm uses its resources in all aspects of its operations. Resources enable the design, implementation and operation of the SOQM, and accordingly, many aspects of this component may overlap with and support other components discussed in this *Tool*.

In addition, financial resources are also an important aspect of the SOQM and are needed to obtain technological, intellectual and human resources. Given that the management and allocation of financial resources is strongly influenced by leadership, financial resources are addressed through governance and leadership in CSQM 1 and this *Tool* (see [Appendix A](#)).

Resources are needed to enable the technological and intellectual operation of the SOQM, and the completion of engagements. CSQM 1 includes requirement to establish quality objectives addressing resources and the need:

- To have competent and capable human resources to perform activities or carry out responsibilities in relation to the operation of the SOQM, and assign individuals to perform activities within the SOQM
- To obtain individuals from external resources (i.e., a service provider) when you do not have the personnel to operate the SOQM or perform engagements
- To have personnel commit to quality and accountability or recognition through timely evaluations, compensation, promotion, and other incentives

## Human resources

(CSQM 1 Paras. 32(a-e), A88-A97)

The term “human resources” in CSQM 1 covers a variety of individuals:

- Personnel – partners and staff (internal)
- Individuals who provide services to your firm (external)

When the term “personnel” is used in CSQM 1, it refers to individuals in your firm. When the term “individual” or “individuals” is used in CSQM 1, it is intended to be interpreted in the context in which it is being used. It may refer to a specific individual, a particular group of individuals, or to all human resources involved in your SOQM or performance of engagements (i.e., individuals in your firm and individuals external to your firm).

The nature of human resources is evolving. As firms can be fully remote, remote workers are engaged, and employees now often work from home. This can create some complexities, even in a smaller firm, if the human resources are working remotely or in different provinces and countries.

The following requirements demonstrate how CSQM 1 may, in some instances, apply to all individuals and, in other instances, apply to only some individuals:

<b>All individuals participating in the SOQM or performance of engagements</b>	<b>Only the individuals in the firm (i.e., personnel)</b>	<b>Only the individuals external to the firm used in the SOQM or performance of engagements</b>
<p><b>Examples of requirements that apply</b></p> <ul style="list-style-type: none"> <li>• The engagement partner’s responsibilities for direction, supervision, and review of the engagement team and their work, exercising professional judgment and resolving differences of opinion. (CSQM 1 Para. 31)</li> </ul>	<p><b>Examples of requirements that apply</b></p> <ul style="list-style-type: none"> <li>• Responsibility of personnel for quality relating to the performance of engagements or activities within the SOQM, and their expected behaviour. (CSQM 1 Para. 28(a)(iii))</li> </ul>	<p><b>Examples of requirements that apply</b></p> <ul style="list-style-type: none"> <li>• Relevant ethical requirements. (CSQM 1 Para. 29(b))</li> <li>• Engaging individuals or obtaining assistance from external sources. (CSQM 1 Para. 32(c))</li> </ul>

All individuals participating in the SOQM or performance of engagements	Only the individuals in the firm (i.e., personnel)	Only the individuals external to the firm used in the SOQM or performance of engagements
<ul style="list-style-type: none"> <li>• Assigning engagement team members and individuals to perform activities within the SOQM. (CSQM 1 Para. 32(d))</li> <li>• Exchanging information between the firm and engagement teams. (CSQM 1 Para. 33(c))</li> <li>• Individuals performing monitoring activities. (CSQM 1 Para. 39)</li> <li>• Communicating matters related to monitoring and remediation to engagement teams and other individuals assigned activities within the SOQM. (CSQM 1 Para. 47)</li> </ul>	<ul style="list-style-type: none"> <li>• Relevant ethical requirements. (CSQM 1 Para. 27(a))</li> <li>• Hiring, developing, and retaining personnel. (CSQM 1 Para. 32(a))</li> <li>• Personnel's commitment to quality. (CSQM 1 Para. 32(b))</li> <li>• Responsibility of personnel to exchange information. (CSQM 1 Para. 33(b))</li> <li>• Confirming compliance with independence requirements. (CSQM 1 Para. 34(b))</li> </ul>	

## Quality objectives

CSQM 1 requires your firm to establish the following quality objectives that address appropriately obtaining, developing, using, maintaining, allocating, and assigning human resources in a timely manner to enable the design, implementation and operation of the SOQM:

- Personnel are hired, developed, and retained and have the competence and capabilities to:
  - consistently perform quality engagements, including having knowledge or experience relevant to the engagements your firm performs
  - perform activities or carry out responsibilities in relation to the operation of your firm's SOQM
- Personnel demonstrate a commitment to quality through their actions and behaviours, develop and maintain the appropriate competence to perform their roles and are held accountable or recognized through timely evaluations, compensation, promotion, and other incentives.
- Individuals are obtained from external sources (i.e., service provider) when your firm does not have sufficient or appropriate personnel to enable the operation of the firm's SOQM or performance of engagements.
- Engagement team members (as applicable) are assigned to each engagement, including an engagement partner, who have appropriate competence and capabilities, and are given sufficient time, to consistently perform quality engagements.
- Individuals who have appropriate competence and capabilities are assigned to perform activities within the SOQM, and sufficient time to perform such activities.

### Human resources: How to deal with individuals external to your firm as part of the SOQM

CSQM 1 notes that if you use individuals external to your firm in the SOQM or in the performance of engagements, different policies or procedures may need to be designed to address the actions of those individuals. (CSQM 1 Para. A27)

#### Example of how the policies or procedures that apply to personnel may be different from those that apply to external individuals

CSQM 1 addresses assigning engagement team members who have appropriate competence and capabilities, including being given sufficient time, to consistently perform quality engagements. This includes any external individuals who perform procedures on the engagement. (CSQM 1 Para. 32(d))

Personnel	Individuals external to the firm
<p>The policies or procedures designed and implemented for personnel are likely to address:</p> <ul style="list-style-type: none"> <li>The processes and systems needed to track: <ul style="list-style-type: none"> <li>engagements and engagement timing</li> <li>personnel, including their level, training, experience and vacation days</li> <li>engagement assignments by personnel</li> <li>overall client portfolios for partners and senior staff</li> </ul> </li> <li>How the engagement partner, or another senior member of the engagement team, submits a request for personnel to be assigned to the engagement, or changes in personnel needs on the engagement.</li> </ul>	<p>The policies or procedures designed and implemented for external individuals are likely to address:</p> <ul style="list-style-type: none"> <li>The information needed from a service provider about the individuals assigned to the engagement (e.g., their level, training and experience)</li> <li>The factors to consider in determining whether the individuals assigned by the service provider have the appropriate competence, capabilities, and time to perform the assigned work</li> <li>How concerns about the competence and capabilities of engagement team members are to be resolved</li> </ul> <p>Given the interaction with the service provider is likely to happen at the engagement level, you may specify that the policies or procedures outlined above are implemented by the engagement partner.</p>

### Intellectual resources

(CSQM 1 Paras. 32(g), A102-A104)

Intellectual resources are obtained or developed, implemented, maintained, and used to enable the operation of your SOQM and in the consistent performance of quality engagements.

Intellectual resources include the information that you use to operate the SOQM and perform your engagements and may be made available through the technology resources. Examples of intellectual resources include the following:

- Written policies or procedures
- A methodology
- Industry or subject matter-specific guides
- Accounting guides



- Standardized documentation or access to information sources (e.g., subscriptions to websites providing in-depth information about entities or other information that is typically used in the performance of engagements)

### Quality objective

CSQM 1 requires your firm to establish a quality objective addressing that the appropriate intellectual resources are obtained or developed, implemented, maintained, and used to enable the operation of your firm's SOQM and the consistent performance of quality engagements. The need for and use of such intellectual resources are consistent with professional standards and applicable legal and regulatory requirements, where relevant.

### Use of technological and intellectual resources together

It is often difficult to separate technological and intellectual resources, so they are introduced here together. You may establish policies or procedures regarding the use of technological and intellectual resources which may:

- Require the use of certain IT applications or intellectual resources in the performance of engagements
- Specify the qualifications or experience of individuals needed to make use of the resource, including the need for an expert or training – for example, you may specify the qualifications or expertise needed to use an IT application that analyzes data, given that specialized skills may be needed to interpret the results
- Specify the responsibilities of the engagement partner regarding the use of technological and intellectual resources
- Set out how the technological or intellectual resources are to be used, including how individuals interact with an IT application or how the intellectual resource is applied, and the availability of support or assistance in using the technological or intellectual resource



#### QUESTION 22

##### **What is a specific quality risk related to intellectual resources?**

One specific quality risk is the use of out-of-date intellectual resources, such as the use of templates or checklists that do not reflect revisions to professional standards.

Intellectual resources can be developed internally or purchased from an external service provider. There is additional discussion of technological and service providers in [Appendix F](#) of this *Tool*.

## Appendix F – Resources: Technological Resources and Service Providers (Component 6 – continued)

### Technological resources

(CSQM 1 Paras. 32(f), A98-A101, and A104)

Your understanding of technology is related to the following:

- The way technology is obtained, developed and maintained
- The use of technology within operations and the completion of engagements

Technological resources, which are typically IT applications, form part of your firm's IT environment. Your firm's IT environment also includes the supporting IT infrastructure and the IT processes and human resources involved in those processes:

- An IT application is a program or a set of programs that is designed to perform a specific function directly for the user or, in some cases, for another application program. An example of an IT application is the application to generate the working papers by the engagement team. Other common examples include the use of workbook or data visualization software applications.
- The IT infrastructure comprises the IT network, operating systems, and databases and their related hardware and software.
- The IT processes are the processes to manage access to the IT environment, manage program changes or changes to the IT environment and manage IT operations, which includes monitoring the IT environment.

A technological resource may serve multiple purposes within your firm, and some of the purposes may be unrelated to the SOQM. Technological resources that are relevant to the application of CSQM 1 include the following:

- Technological resources that are used in designing, implementing or operating your SOQM
- Technological resources that are used directly by engagement teams in the performance of engagements
- Resources that are essential to enabling the effective operation of the above, such as, in relation to an IT application, the IT infrastructure and IT processes supporting the IT application

It is important to recognize that some resources may be provided by service providers (e.g., the general IT services, website maintenance, use of portals/cloud to share information, payroll, etc.).

Failures in information technology applications used by your firm or the technology used by service providers may be a quality risk.

## Quality objective

CSQM 1 requires your firm to establish a quality objective addressing that the appropriate technological resources are obtained, developed, implemented, maintained and used to enable the operation of the SOQM and the performance of engagements. (Ref: Paras. 32(f), A98-A101, and A104)

In your firm, technological resources may be limited. For example, your technological resources may include a commercial IT application used by engagement teams, which has been purchased from a service provider. The IT processes that support the operation of this IT application may be relevant, although they may be simple (e.g., processes for authorizing access to the IT application and processing updates to the IT application).

## Technological resources: Engagement teams' use of automated tools and techniques (ATTs)

CSQM 1 discusses the use of ATTs by the engagement team when performing an engagement.

In the case of related services, such as a compilation engagement, the automated tools and techniques typically are not sophisticated. However, the use of applications that generate the working paper files or the compiled financial information is an example of an automated tool.

In some cases, the ATT may be provided by (or approved) at the firm level, and in other cases, the ATT may be obtained by the engagement team. In both circumstances, your firm's SOQM needs to address the appropriateness of the ATT. For example, CSQM 1 explains that you may:

- Specifically prohibit the use of ATT or features of ATT until such time that it has been determined that they operate appropriately and have been approved for use by your firm
- Establish policies or procedures to address circumstances when the engagement team uses an ATT that you have not approved, such as requiring the engagement team to determine that the ATT is appropriate for use prior to using it on the engagement by considering specific matters (e.g., data inputs, how the ATT operates, whether the outputs of the ATT achieve their intended purpose etc.). (CSQM 1 Para. 101)

## Sample responses

Some sample responses related to your technology resources are included below:

Quality risks	Sample responses (not specified responses per CSQM 1)	Examples of sample policies or procedures
Information could be breached, confidentiality lost, or not be accessible.	You need to establish policies or procedures to maintain the confidentiality, safe custody, integrity, accessibility, and retrievability of your SOQM, and engagement documentation.	Policy and/or Procedure - "The firm will <ul style="list-style-type: none"> <li>• Store, safeguard and maintain electronic and paper-based information;</li> <li>• Use passwords to restrict access to electronic engagement documentation;</li> <li>• Perform regular back-up routines for electronic documentation stored on the servers, laptops, and smart phones;</li> </ul>

Quality risks	Sample responses (not specified responses per CSQM 1)	Examples of sample policies or procedures
Information could be breached, confidentiality lost, or not be accessible. <i>(continued)</i>		<ul style="list-style-type: none"> <li>• Store back-up media off-site in a safe location; and</li> <li>• Retain a copy of all software applications (including the software versions) and any other technology required to access and retrieve documentation created at any time.”</li> </ul>
Updates and change management of IT applications.	You need to establish policies or procedures to address the currency and version control of IT applications.	Policy – “The firm prohibits the use of IT applications or features of IT applications until such time that it has been determined that they operate appropriately and have been approved for use.”

## Service providers

(CSQM 1 Paras. 32(h) and A105-A108)

CSQM 1 recognizes that you may not have all of the resources needed internally and may use service providers. Resources from service providers include technological, intellectual, or human resources used in the SOQM or performance of engagements. This includes using human resources from other firms.

Examples of a service provider may include individuals:

- Engaged to perform monitoring activities
- Engaged to provide IT applications or IT support services firm
- Engaged to provide staff support in completing an engagement
- Engaged to provide consultation on technical matters

You may use many resources from service providers in the SOQM or in performing engagements. Although you cannot outsource your SOQM (or the responsibility for the SOQM), the resources from service providers can assist you in fulfilling the requirements of CSQM 1.

## Quality objectives

CSQM 1 requires your firm to establish quality objectives that human, technological or intellectual resources from service providers are appropriate for use in your firm’s SOQM and in the performance of engagements. The quality objectives for service providers must take into account the firm’s quality objectives related to human, technological and intellectual resources already addressed in your SOQM.

A service provider may be engaged to support various aspects of the SOQM or to provide specific support to an engagement team. In all cases, the SOQM needs to address the appropriateness of the service provider in the circumstance. For example, when the service provider is engaged by the engagement team, you may establish policies or procedures that set out matters for the engagement team to consider in engaging the service provider, i.e., qualifications, additional training / onboarding / coaching needed, specific tasks they can perform, etc. To illustrate, when completing a compilation engagement on financial information, you may engage an independent contractor to prepare some or all of the working papers.

### Variability of quality risks and extent of responses

The nature of the quality risks related to the resources from service providers, and reasons for the assessment of the quality risks, may vary. As a result, the nature, timing, and extent of the responses to address quality risks related to whether the resources from service providers are appropriate for use may also vary. In some cases, you may determine that there is no quality risk related to certain resources from service providers, in which case you may not need to design and implement responses related to those resources.

The following table provides details on some of the factors that will help you assess the quality risks and the extent of responses.

### Examples of factors that may affect the quality risks related to resources from service providers, which affects the nature, timing and extent of the firm's responses

Examples of factors	Examples of how the factors affect the quality risks
The nature of the resource	<p>When using a technological resource from a service provider, the quality risks may include:</p> <ul style="list-style-type: none"> <li>• A lack of appropriate updates to the IT application, resulting in it becoming unreliable or unusable, and therefore not appropriate for use in the SOQM or in performing engagements.</li> <li>• Access to client data, particularly when the data is stored in a database managed and operated by the service provider, which could result in confidentiality breaches.</li> </ul> <p>When using human resources from a service provider, the quality risks may include:</p> <ul style="list-style-type: none"> <li>• A lack of appropriate competence and capabilities to perform the activity for which the human resource has been engaged, resulting in the resource not being appropriate for use in the SOQM or in performing engagements.</li> <li>• Changes in the individuals assigned by the service provider (e.g., due to reassignment) during the course of the activity for which they have been engaged, and new individuals assigned being inappropriate due to lack of continuity or experience related to the activity.</li> </ul>

## Examples of factors

## Examples of how the factors affect the quality risks

Your responsibilities to take further actions in using the resource

- You use an IT application from a service provider that is an off-the-shelf package. The IT application is maintained by the service provider. The service provider distributes updates automatically, and you receive an automated alert to accept the update. In this case, since you have relatively few responsibilities related to the IT application, the quality risks may relate to:
  - whether the IT application is appropriate for the purpose
  - whether the service provider provides the necessary updates
  - the risk that you do not accept the automated updates
- You use an IT application from a service provider. Although the IT application is an off-the-shelf package and is maintained by the service provider, you build on custom-developed applications that enable you to integrate the IT application with other IT applications. In addition, there are a number of responsibilities for you in using the IT application, including:
  - capturing firm-specific data into an underlying database, and maintaining the data
  - selecting various options related to the functionality of the IT application, which require a periodic review as the functionalities may change when the service provider updates the IT application

In this case, in addition to the quality risks described in the example above about whether the IT application is appropriate for the purpose, and the quality risks related to the updates, you may also identify quality risks related to:

- the custom-developed applications not functioning correctly
- firm-specific data being incorrectly captured or not properly maintained
- the selected functionality options being inappropriate

### Service providers: Obtaining information from service providers

CSQM 1 explains that in determining whether a resource from a service provider is appropriate for use in the SOQM or performance of engagements, you may obtain information about the service provider and the resources they provide from several sources. Often such information may need to be obtained directly from the service provider. (CSQM 1 Para. A107)

In circumstances when the service provider does not provide you with the information needed, and you are unable to obtain alternative information to satisfy yourself that the service provider is appropriate for use in the SOQM or performance of engagements, you may need to use an alternative service provider. In some cases, you may be required to use the service provider, and if you are unable to satisfy yourself about the appropriateness of the resource, you may need to take other actions to appropriately respond to the situation. Such actions may include designing and performing additional procedures or engaging a subject matter expert.

## Appendix G – Information and Communication (Component 7)

(CSQM 1 Paras. 33, 34(e), A109-A115, and A124-A132)

### Quality objectives

CSQM 1 requires your firm to establish the following quality objectives that address obtaining, generating, or using information regarding the SOQM, and communicating information within the firm and to external parties on a timely basis to enable the design, implementation and operation of the SOQM:

- The information system identifies, captures, processes, and maintains relevant and reliable information that supports the SOQM, whether from internal or external sources.
- The culture of your firm recognizes and reinforces the responsibility of personnel to exchange information with your firm and with one another.
- Relevant and reliable information is exchanged throughout your firm and with engagement teams, including:
  - Information is communicated to personnel and engagement teams, and the nature, timing and extent of the information is sufficient to enable them to understand and carry out their responsibilities relating to performing activities within the SOQM or engagements.
  - Personnel and engagement teams communicate information to your firm when performing activities within the SOQM or engagements.
- Relevant and reliable information is communicated to external parties, including:
  - Information is communicated by your firm to service providers, if any, enabling the service providers to fulfill their responsibilities relating to the services or resources provided by them.
  - Information is communicated externally when required by law, regulation or professional standards, or to support external parties' understanding of the SOQM.

### The information system

(CSQM 1, Para. A111)

You already have an information system and can consider how the existing information system identifies, captures, processes, and maintains information that can be utilized in your implementation of CSQM 1.

Your information system may include the use of manual or IT elements, which affect the way information is identified, captured, processed, maintained, and communicated. The procedures to identify, capture, process, maintain and communicate information may be enforced through IT applications and, in some cases, may be embedded in your responses for other components of your SOQM. Additionally, digital records may replace or supplement physical records.

In your practice, you may not need rigorous policies and procedures that specify how information be identified, captured, processed, and maintained, if your information system is not complex.

## Communicating and exchanging information

Effective two-way communication is essential to the operation of the SOQM and performance of engagements. CSQM 1 recognizes that there are various parties with whom your firm communicates and exchanges information. The information communicated, and the responsibilities of individuals to communicate, differs depending on the role they are undertaking in the context of your SOQM or performance of engagements.



### QUESTION 23

#### What are some of the communications within my practice that could already exist and will now need to be identified as part of my SOQM?

Communication between individuals within your practice may include the following:

Your communication to personnel and engagement team:	Communication from personnel and engagement team:
<ul style="list-style-type: none"> <li>• Newsletters and emails about external and internal developments</li> <li>• Communication of changes to policies and procedures</li> <li>• Information known to leadership that impacts specific engagement teams</li> </ul>	<ul style="list-style-type: none"> <li>• Information obtained during the performance of an engagement that may have caused you to decline the client relationship or specific engagement had that information been known prior to accepting / continuing</li> <li>• The operation of SOQM responses (e.g., concerns about the processes for assigning personnel to engagements), which in some cases, may indicate a deficiency in the SOQM</li> </ul>

(CSQM 1 Para. A112)

There are a variety of methods a firm may use to communicate information – for example, direct oral communication, manuals of policies or procedures, newsletters, alerts, emails, intranet or other web-based applications, training, presentations, social media, or webcasts. In determining the most appropriate method(s) and frequency of communication, you may take into consideration a variety of factors, including:

- The audience to whom the communication is targeted
- The nature and urgency of the information being communicated

In some circumstances, you may determine it necessary to communicate the same information through multiple methods to achieve the objective of the communication. In such cases, the consistency of the information communicated is important.





### QUESTION 24

#### Does CSQM 1 require communication to be formally documented?

No, not all communication needs to be formally documented. Communication may be more informal and achieved through direct discussions with personnel and engagement teams. This approach may be sufficient, given the nature of your firm and the nature of information being communicated, remembering that documentation of all communication (formal and informal) is required to the extent necessary to address the documentation requirements of CSQM 1.

The more important the communication, the more formal the communication is likely to be. (CSQM 1 Paras. 57-59)

### Communications with external parties

(CSQM 1 Paras. 34(e) and A124-A132)

External communication related to your SOQM may include direct conversations with external parties, including management (and TCWG, if applicable). Information about your SOQM may also be shared with practice inspectors, as part of a bidding process, on your website, or through social media.

CSQM 1 addresses communication with external parties through the following:

- A quality objective related to communication with external parties (CSQM 1 Para. 33(d)(ii))
- A specified response (CSQM 1 Para. 34(e))

For those firms performing related services, it is expected that there would be limited cases when communication with external parties is required, other than within the practice inspection process.

### Sample responses

CSQM 1 includes a requirement for a specified response related to communications, and a sample response is included below:

Quality risks	Specified response (CSQM 1 Para. 34(e))	Examples of sample policies or procedures
Information that is not up to date or inaccurate, is shared about your SOQM or could possibly breach confidentiality	You need to establish policies or procedures that address the information to be provided / shared when communicating externally, and when it is appropriate to communicate with external parties about your SOQM.	Policy - "Information about the firm's SOQM will only be shared externally if it is reviewed for accuracy and is up to date."

## Appendix H – The Monitoring and Remediation Process (Component 8)

(CSQM 1 Paras. C16(a), C16(h), 35-47, A10-A12, A15-A17 and A138-A174)

The purpose of the monitoring and remediation process is:

- To monitor the SOQM so that your firm has relevant, reliable, and timely information about the design, implementation, and operation of the SOQM.
- To take appropriate actions to respond to identified deficiencies, such that deficiencies are remediated on a timely basis, to prevent them from reoccurring. Taking appropriate actions may include, if necessary, rectifying findings that relate to engagements when it appears that procedures were omitted on an ongoing or completed engagement, or a report issued was inappropriate.

Monitoring and remediation facilitates the proactive and continual improvement of engagement quality and the SOQM. Identifying and remediating deficiencies is constructive and is an essential part of an effective SOQM.

### How information about the design, implementation and operation of the SOQM and deficiencies may be used

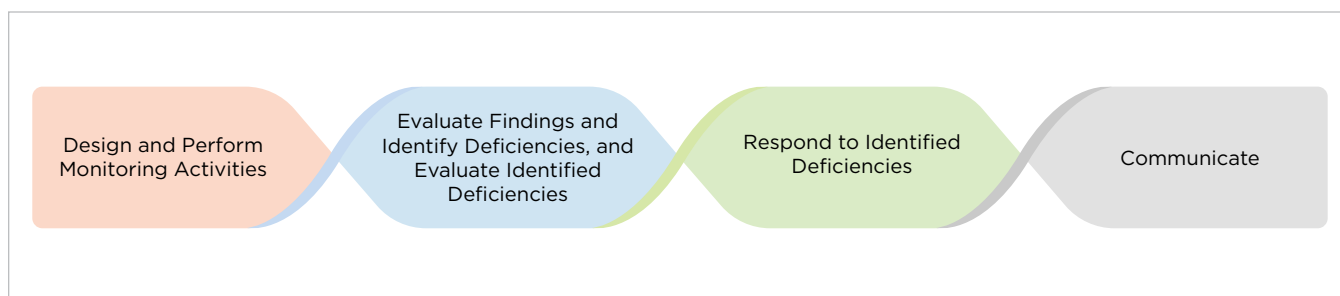
Information about the design, implementation, and operation of your SOQM, including deficiencies and remedial actions, may be used by:

- Firm leadership in the annual evaluation of the SOQM
- Individuals assigned activities within the SOQM for proactive and continual improvement of engagement quality and the SOQM
- Engagement partners to manage and achieve engagement quality

### The various aspects of a monitoring and remediation process

The monitoring and remediation process can be broken down into four aspects:

FIGURE 9



As further explained in the sections that follow, the design of the monitoring and remediation process will vary based on many factors, including how other aspects of the SOQM are designed, and the nature and circumstances of your firm. The monitoring and remediation process operates in a dynamic and iterative manner.

## Design and perform monitoring activities

(CSQM 1 Paras. 36-39, A139-A156)

### What is to be monitored

The SOQM is monitored, as a whole, which may include monitoring:

- How responsibilities are assigned to leadership, if applicable, and whether the requirements of CSQM 1 have been met
- The design and operation of your risk assessment process, i.e., establishing quality objectives, identifying and assessing quality risks, designing and implementing responses, and identifying information related to changes in the nature and circumstances of your firm and engagements it performs that may impact the quality objectives, quality risks, or responses
- The implementation and operation of the responses, including whether they properly operate according to how they have been designed and whether the responses effectively address the related quality risks
- Whether the monitoring and remediation process is achieving its intended purpose
- Leadership's evaluation of the SOQM and whether it has met the requirements of CSQM 1

### Monitoring the SOQM

The nature, timing and extent of the monitoring activities are tailored to your firm by taking into account a number of factors set out in CSQM 1. Below are the factors that are to be considered, together with illustrative examples that demonstrate how that factor may affect the nature, timing, and extent of the monitoring activities.

#### The reasons for the assessments given to the quality risks

##### Example

Your firm has staff, and you identify a quality risk related to the engagement partner providing insufficient direction, supervision and review. The severity of this risk has increased because a pattern of incomplete or untimely documentation on this partner's other files has been identified through the firm's monitoring process. One possible response is to design that a process exists to make sure the engagement partner documents the direction, supervision and review activities on a timely basis.

#### The design of the responses

##### Example

The monitoring activities could include determining the difference between the actual and predicted average time spent on the engagement. A procedure could be to check that the timesheet data being reported and used in predicting the average time expectation is accurately collected, and variances investigated.

## The design of the risk assessment process and monitoring and remediation process

### Example

- *Monitoring the risk assessment process:* As part of the risk assessment process, the firm has a committee that meets quarterly to discuss changes in the firm and its environment, and how these may impact the SOQM, whether new quality risks exist, and responses needed to address those risks. The nature of the firm's monitoring activities may involve **observing** a committee meeting and understanding the information the committee uses to identify changes in the firm and its environment.
- *Monitoring the monitoring and remediation process:* If you engaged a service provider to perform the firm's monitoring activities, then the service provider performs the monitoring activities, and provides you with the results. The nature of your firm's monitoring of the design, implementation, and operation of the monitoring activities may involve:
  - considering whether the monitoring activities the service provider was instructed to provide adequate information about the SOQM
  - considering the appropriateness of engaging the service provider
  - reviewing the information provided by the service provider to determine whether they have performed the monitoring activities in accordance with your instructions
  - inquiring of the service provider whether they have insights or recommendations that would enhance the effectiveness of the design of the firm's monitoring activities

## Changes in the SOQM

### Example

The firm implements a new IT application to manage the acceptance and continuance of client relationships and engagements. The firm determines that it needs to undertake monitoring activities within three months after the launch of the new IT application (timing of the monitoring activity) to determine whether the IT application is functioning as intended and is achieving its intended purpose.

## Previous monitoring activities

### Examples

*Previous monitoring activities highlight areas of focus:* The results from the firm's previous inspection of completed engagements highlighted that engagement teams had inadequate time to perform the engagements, which was an identified deficiency that was considered severe and pervasive. The firm took a number of actions to remediate the deficiency, including hiring additional staff and mandatory project management training for senior staff and partners. Given the severity and pervasiveness of the deficiency, the firm closely monitors, on an ongoing basis (timing of the monitoring activity), the assignment of staff to engagements and has regular meetings (nature and timing of the monitoring activity) with senior staff and partners to discuss how the outcomes of the project management training are being implemented.

*Monitoring activities have not been undertaken for an extensive period:* The firm has an IT application for timesheets, which it has used for many years and which has not changed. In the first year when the firm acquired the IT application, the firm's monitoring activities checked that the IT application was functioning as intended. Many years have passed since the IT application was last monitored, and therefore the firm identifies the need to perform new monitoring activities over the IT application (timing of the monitoring activity).

## Other relevant information – complaints / allegations, external inspections, service providers

### Example

The firm receives an anonymous complaint internally that an engagement partner did not adhere to the firm's policies or procedures regarding non-compliance with laws and regulations when there was identified non-compliance with laws and regulations by client management. The firm follows up on the complaint and takes action to deal with the non-compliance in accordance with relevant ethical requirements. Nevertheless, given the engagement partner did not comply with policies or procedures, in selecting engagement partners for inspection of completed engagements, the firm selects the engagement partner that was the subject of the complaint (extent of monitoring activity).

### Ongoing and periodic monitoring activities

Ongoing monitoring activities may be more suitable in some circumstances, while periodic monitoring activities are more suitable in others. The combination of ongoing and periodic monitoring activities may enable effective monitoring as a whole.

#### Ongoing monitoring activities

*Routine activities, built into the firm's processes and performed on a real-time basis, reacting to changing conditions*

#### Example

Various reports are generated from the firm's IT application related to independence on a monthly basis and are reviewed by the individual assigned operational responsibility for compliance with independence requirements. The individual uses the report to identify anomalies and non-compliance with the firm's policies or procedures related to independence.

#### Periodic monitoring activities

*Activities conducted at certain intervals*

#### Example

Inspection of completed engagements or inspection of training records to determine that personnel have completed required training.



### QUESTION 25

#### Do I have to have an external monitor?

It is not required, but if you do not have personnel with the competence, capabilities, time, or objectivity to perform the monitoring activities, you may use an external monitor (i.e., a service provider) to perform the monitoring activities.

If you are thinking of engaging an external monitor, you may wish to consider speaking with colleagues at another firm to see whether an arrangement can be made to act as each other's monitor.

(CSQM 1 Para. A156)

## Types of monitoring activities

Monitoring activities include the monitoring of the whole SOQM and includes the policies and procedures completed, including the inspection of completed engagement files.

### Inspection of completed engagements

Inspections of completed engagements are one of the monitoring activities to be performed. Inspections of completed engagements, although focused on engagements, provide information about the SOQM. For example, the outcomes of inspections may provide information about:

- Whether there are quality risks that have not been identified, or whether the assessment of quality risks may need to be modified
- Whether engagement teams have implemented your policies or procedures (i.e., responses) as designed, and whether the responses are effective in addressing the quality risks
- Whether modifications are needed to the design of the policies or procedures (i.e., responses) based on the implementation of the policies or procedures by engagement teams
- Whether the quality of engagements and culture and attitude towards quality are consistent
- Whether engagement partners have fulfilled their overall responsibility for managing and achieving quality on their assigned engagements
- Whether actions by engagement teams that have given rise to positive outcomes may provide ideas on how to further improve or enhance the SOQM

Only performing inspections of completed engagements will unlikely provide you with sufficient and timely information about the design, implementation and operation of the SOQM, i.e., you will likely need a combination of monitoring activities to achieve the purpose of the monitoring and remediation process.

### Examples of other types of monitoring activities

- Interviewing personnel, or undertaking formal surveys, to understand how personnel perceive the culture of the firm.
- Considering the consistency of leadership's communications and messaging, and whether they reflect the firm's values and focus appropriately on quality.
- Checking and evaluating IT applications used for functions related to the SOQM, such as independence systems or automated tools used for engagements.
- Inspecting documentation and contracts supporting engaging service providers, to determine whether proper consideration was given to whether the service provider was appropriate for use.
- Checking records of attendance at training events.
- Inspecting time records for number of hours spent by engagement partners and other senior personnel and assessing the sufficiency and appropriateness of such hours.



### QUESTION 26

#### Can the provincial practice inspections process, and its related findings, be considered part of my monitoring process?

No, the practice inspection process is not part of the monitoring process of your own SOQM. In scheduling your monitoring activities, you may want to consider the timing of activities to best use the information from your monitoring activities to improve your overall SOQM or engagement level quality. That is, any monitoring of engagements could be scheduled in the years between the provincial inspection cycle.

However, the results of the practice inspections may influence the nature, timing and extent of your own monitoring activities.

(CSQM 1 Para. A150)



### QUESTION 27

#### How can I differentiate whether an activity is a “response” or “monitoring activity”?

When designing the SOQM, you determine the nature of an activity (i.e., a response or a monitoring activity) based on what the activity is intended to achieve. For example:

- If you establish a policy that requires engagements to apply or be subject to a certain procedure to prevent a quality risk from occurring, then it is likely a response (e.g., the firm’s methodology requires engagements meeting certain criteria to be subject to a pre-issuance review to assist in determining the appropriateness of the engagement report before it is issued or disclosure of a lack of independence in a compilation engagement).
- If you design an activity to accumulate information about the execution of policies or procedures to determine their effectiveness, it is most likely a monitoring activity (e.g., inspections of engagements that include determining whether the engagements meeting the criteria for a pre-issuance review were appropriately subject to the pre-issuance review, and that the issued reports were appropriate in the circumstances).



### QUESTION 28

#### Why is the inspection of completed engagements a monitoring activity?

Inspections of completed engagements are designed to evaluate whether policies or procedures (i.e., responses) or other aspects of the SOQM are designed, implemented and operating in the manner intended.

It is important when reading CSQM 1 to recognize that the inspection of completed engagements is different from an engagement quality review. An engagement quality review is designed to evaluate the judgments of the engagement team **before** the engagement report is issued. An inspection of the file after completion, and on a cycle basis, is part of your monitoring activities.

**Note:** Paragraph A140 states that monitoring activities can also include the inspection of in-process engagements, but this is not likely to be common for shorter engagements.

### Inspection of completed engagements: Selecting completed engagements for inspection

The inspection of completed engagements is focused on selecting a combination of engagements and engagement partners and can be influenced by many factors, some of which are summarized below:

#### Conditions, events, circumstances, actions, or inactions giving rise to the quality risks:

- The types of engagements performed, and the extent of your firm's experience in performing the type of engagement.
- The types of entities for which engagements are undertaken, for example:
  - entities operating in emerging industries
  - entities operating in industries associated with a high level of complexity or judgment
  - entities operating in an industry that is new to your firm
- The tenure and experience of the engagement partner.

#### Other factors and information:

- The results of previous inspections of completed engagements, including for each engagement partner.
- Complaints or allegations about an engagement partner.
- The results of external inspections, including for each engagement partner.
- The results of your firm's evaluation of each engagement partner's commitment to quality.



#### QUESTION 29

#### How do I apply a cyclical basis for the inspection of completed engagements?

The application of a cyclical basis for the inspection of completed engagements may be achieved by establishing policies or procedures that:

- Set forth the **standard period** of the inspection cycle, such as the inspection of a completed engagement for each engagement partner performing related services once every three to five years
- Set out **the criteria** for selecting completed engagements
- Address selecting engagement partners in a manner that is **unpredictable**
- Address when the standard period may be revised. For example, you may select engagement partners **more frequently** than the standard period set out in the policy when:
  - Multiple deficiencies have been identified that have been evaluated as severe, and you determine that a more frequent cyclical inspection is needed across all engagement partners.
  - The engagement partner performs engagements for entities operating in a certain industry where there are high levels of complexity or judgment.
  - An engagement performed by the engagement partner has been subject to other monitoring activities, and the results of the other monitoring activities were unsatisfactory.
  - The engagement partner has performed an engagement for an entity operating in an industry in which the engagement partner has limited experience.
  - The engagement partner is a newly appointed engagement partner or has recently joined your firm from another firm or another jurisdiction.



- You may **defer the selection** of the engagement partner (e.g., deferring for a year beyond the standard period) when:
  - Engagements performed by the engagement partner have been subject to other monitoring activities during the standard period set out in your firm's policy.
  - The results of the other monitoring activities provide sufficient information about the engagement partner (i.e., performing the inspection of completed engagements would unlikely provide your firm with further information about the engagement partner).

(CSQM 1 Para. A153)

**Note:** Inspections of completed engagements are not required every year but can be helpful. If you have multiple partners, it may be useful to spread out inspection timing so that not all inspections of completed engagements are conducted in the same year with nothing in the other years.

The determination of which engagements or engagement partners to select may include three interrelated considerations:

<b>The factors that affect the design of all monitoring activities</b>	<b>Other monitoring activities undertaken by the firm</b>	<b>The cycle for the selection of engagement partners</b>
<p>The factors include:</p> <ul style="list-style-type: none"> <li>• The reasons for the assessments given to the quality risks</li> <li>• Changes in the SOQM</li> <li>• The results of previous monitoring activities, and whether remedial actions to address previously identified deficiencies were effective</li> <li>• Other relevant information, including complaints and allegations, information from external inspections and information from service providers</li> </ul>	<p>Depending on the nature and extent of other monitoring activities and the results of the activities, they may affect:</p> <ul style="list-style-type: none"> <li>• Which completed engagements to select for inspection</li> <li>• Which engagement partners to select for inspection</li> <li>• How frequently to select an engagement partner for inspection</li> <li>• Which aspects of the engagement to consider when performing the inspection</li> </ul>	<p>The cycle for the selection of the engagement partner is determined by the firm and may vary according to a number of factors, such as:</p> <ul style="list-style-type: none"> <li>• The types of engagements the firm performs</li> <li>• The size of the firm and number of engagement partners</li> <li>• Other monitoring activities the firm performs</li> </ul> <p>A firm may determine it appropriate to set different cyclical periods for engagement partners, based on the nature of engagement or length of service.</p>

### How the inspection of completed engagements relates to other monitoring activities

The information from the inspection of completed engagements and the information from other monitoring activities may affect each other, as demonstrated below.

**Information from the inspection of completed engagements may indicate areas where further monitoring activities are needed.**

#### Example

Through the inspection of completed engagements, you identify that on engagements performed in a particular industry, engagement team members lack appropriate knowledge of the industry. In investigating the root cause of this deficiency, you note that the engagement team members did not receive any training about this industry. You therefore undertake further monitoring of your firm's training programs to understand whether they focus on industry-specific training, and which personnel are attending the training.

**Information from other monitoring activities may affect your inspection of completed engagements.**

#### Example

Through interviewing personnel on matters related to the effectiveness of the firm's culture, you identify multiple comments from personnel regarding engagements where they felt they did not receive appropriate direction and supervision. You use this information to determine which engagements to select for inspection.

### Monitoring the monitoring and remediation process to determine whether it is achieving its intended purpose

Without an effective monitoring and remediation process, you may not be able to determine whether deficiencies exist and remediate them. Accordingly, it is important that you monitor the monitoring and remediation process to determine whether it is achieving its intended purpose. This will:

- Provide relevant, reliable and timely information about the design, implementation and operation of the SOQM
- Take appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis

You may have readily available information about whether the monitoring and remediation process is achieving its intended purpose through your own knowledge. As such, the monitoring of the monitoring and remediation process and its documentation may be less detailed. For example, the information about the monitoring and remediation process may be known to you from the frequent interaction with the SOQM. The monitoring activities and the actions to address the results, and your evaluation of the monitoring and remediation process could take the form of a memorandum to summarize and provide documentation of your knowledge.

#### Examples of factors affecting your monitoring activities for the monitoring and remediation process:

- The size and complexity of your firm
- The nature, timing and extent of the monitoring activities

- Who performed the monitoring activities (e.g., a service provider, a separate group within the firm designated to perform monitoring activities or personnel who are responsible for the response)
- The results of previous monitoring activities
- Information available from other sources about the effectiveness of the monitoring and remediation process (e.g., external inspections, a service provider), including information that indicates that the monitoring activities failed to identify a deficiency
- Information obtained from performing the root cause analysis of identified deficiencies
- New monitoring activities that have not previously been performed, or changes to the design of monitoring activities

(CSQM 1 Paras. 35-47 and A138-A174)

### Monitoring the remediation process

(CSQM 1 Para. 43)

CSQM 1 requires the individual assigned operational responsibility for the monitoring and remediation process to evaluate whether:

- Remedial actions are appropriately designed to address the identified deficiencies and their related root cause(s) and determine that they have been implemented
- Remedial actions implemented to address previously identified deficiencies are effective

This evaluation may form part of the information you use to monitor the remediation process. Nevertheless, you may need to monitor that the individual assigned operational responsibility for the monitoring and remediation process is fulfilling their responsibilities. (CSQM 1 Paras. 43-44)



#### QUESTION 30

##### Who can perform the monitoring activities?

CSQM 1 does not specify who is required to perform the monitoring activities. However, it does specify that you need to have policies or procedures dealing with the competence and capabilities (including having sufficient time) of the individuals performing the activities and the objectivity of those individuals.

**Note:** CSQM 1 specifies that the individual performing the monitoring cannot be an engagement team member (or the engagement quality reviewer of the engagement, if applicable).

Whether an individual has the appropriate competence, capabilities and objectivity to perform a monitoring activity depends on a number of factors:

- The nature of the monitoring activity being performed
- The nature of the underlying matter being monitored, including whether it is specialized, complex or requiring specific expertise
- The extent of objectivity needed to properly monitor the underlying matter, given the nature of the underlying matter and level of judgment involved

- The nature and extent of other monitoring activities also being performed on the underlying matter
- The authority needed to appropriately monitor the underlying matter (e.g., the authority of the individual monitoring leadership's actions and behaviours may need to be greater than the authority of an individual monitoring training attendance)



### QUESTION 31

#### **Is reperformance of the responses expected to form a large portion of the monitoring activities?**

It is a matter of professional judgment!

For example, consider different ways of monitoring a response by performing:

- A full reperformance
- Inquiry
- Inspection

The extent of the monitoring will vary and would rarely simply involve inquiry alone. The documentation is to be sufficient to allow an experienced person to understand both the testing and the results.



### QUESTION 32

#### **Can the monitor be an external individual (i.e., a service provider)?**

Yes, and using external individuals to perform monitoring activities could be advantageous, as it may provide more objective information about your SOQM and help you identify areas for improvement in the SOQM.

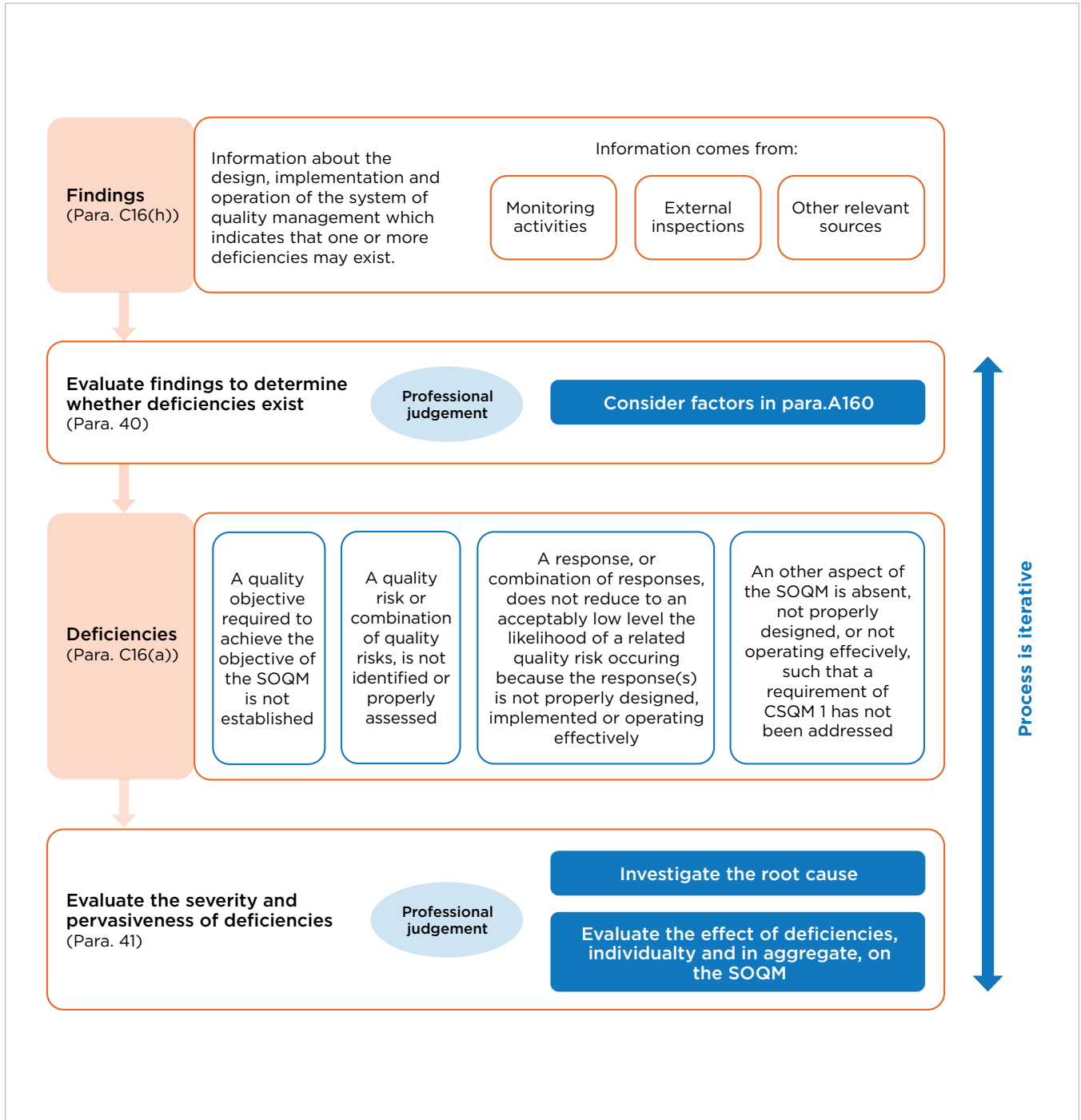
### **Evaluate findings and identify deficiencies and evaluate the severity and pervasiveness of deficiencies**

(CSQM 1 Paras. 16(a), 16(h), 40-41, A10-A12, A15-A17, and A157-A169)

The key purpose of monitoring and remediation is to obtain information about the SOQM in a timely manner to determine whether it is effective and to take appropriate actions to respond to the information. As a result, it is essential that you evaluate the information on a timely basis to identify deficiencies so that deficiencies can be remediated. If deficiencies do exist, you need to understand how severe or pervasive those deficiencies are.

CSQM 1 includes a framework for evaluating findings to identify deficiencies and then to further evaluate the severity and pervasiveness of the deficiencies, as illustrated below:

FIGURE 10



### Evaluate findings to determine whether deficiencies exist

In determining whether deficiencies exist, consider whether a finding, or combination of findings when considered together, meet(s) the definition of a deficiency as follows:

Quality objectives	Quality risks	Responses	Other aspects
<ul style="list-style-type: none"> <li>A quality objective required by CSQM 1 has not been established or has only been partially established.</li> <li>An additional quality objective that is needed to achieve the objective of the SOQM has not been established.</li> </ul>	<ul style="list-style-type: none"> <li>A quality risk has not been identified.</li> <li>An identified quality risk has not been properly assessed.</li> </ul> <p><i>An absent quality risk or a quality risk that has not been appropriately assessed may also lead to a response being absent, inappropriately designed or inappropriately implemented.</i></p>	<ul style="list-style-type: none"> <li>A response, or combination of responses, does not reduce to an acceptably low level the likelihood of a related quality risk occurring because the response(s) is not properly designed, implemented or operating effectively.</li> </ul> <p><i>Not all responses that are absent, inappropriately designed or inappropriately implemented are deficiencies.</i></p> <p><i>In effect, a response, or combination of responses, that does not reduce a quality risk to an acceptably low level, could cause you not to achieve a quality objective.</i></p>	<ul style="list-style-type: none"> <li>Another aspect of the SOQM is absent, not properly designed or not operating effectively, such that a requirement in CSQM 1 has not been addressed.</li> </ul> <p><i>Paragraph A12 of CSQM 1 provides examples of when there may be deficiencies related to other aspects of the SOQM.</i></p>



#### QUESTION 33

#### What are some of the factors that I may consider in determining whether a finding is a deficiency?

The factors to be considered in determining whether a finding is a deficiency can include quantitative and qualitative aspects, including whether the finding relates to a specific response and may depend on the nature and extent of the finding.

If the finding is related to a response:

- How the response is designed. For example, the nature of the response, the frequency of its occurrence (if applicable), and the relative importance of the response to addressing the quality risk(s) and achieving the quality objective(s) to which it relates.
- The nature of the quality risk to which the response relates, and the extent to which the findings indicate that the quality risk has not been addressed.
- Whether there are other responses that address the same quality risk, and whether there are findings for those responses.

The Nature of the Finding (including its pervasiveness):

- The nature of the findings. For example, findings related to leadership actions and behaviours may be qualitatively significant, given the pervasive effect this could have on the SOQM as a whole.

- Whether the findings, in combination with other findings, indicate a trend or systemic issue. For example, similar engagement findings that appear on multiple engagements may indicate a systemic issue.

The Extent of the Monitoring Activity and Extent of the Finding:

- The extent of the monitoring activity from which the findings arose, including the number or size of the selections.
- The extent of the finding in relation to the selection covered by the monitoring activity, and in relation to the expected deviation rate. For example, in the case of inspection of engagements, the number of engagements selected where the findings were identified, relative to the total number of engagements selected, and the expected deviation rate you had set.

**Note:** Not all findings are deficiencies. Professional judgment is used when considering whether a finding is a deficiency. (CSQM 1 Para. A160)



#### QUESTION 34

**When completing the monitoring, I may have other observations that are not “findings”. Can the other observations be useful?**

Yes, the other observations can be useful:

- To help investigate the root cause(s) of identified deficiencies (e.g., through contrasting why things went well versus why things didn't go well, which led to the deficiency)
- To identify practices that your firm can support or apply more extensively (e.g., across all engagements)
- To highlight opportunities for your firm to enhance the SOQM

**REMINDER:** “Findings” are information indicating that one or more deficiencies may exist.

#### Evaluate the severity and pervasiveness of deficiencies

You are required to evaluate the severity and pervasiveness of identified deficiencies because it:

- Drives the nature, timing, and extent of remedial actions to respond to the identified deficiencies, by focusing on deficiencies that pose the biggest risk to the SOQM
- Affects leadership's evaluation of the SOQM

#### How the severity and pervasiveness of deficiencies are evaluated

To evaluate the severity and pervasiveness of deficiencies, you:

- Investigate the root cause(s) of the identified deficiencies
- Evaluate the effect of the identified deficiencies, individually and in aggregate, on the SOQM

### **Examples of questions that may be asked in evaluating the severity and pervasiveness of an identified deficiency**

- What is the nature of the identified deficiency, and if it related to engagements, to what type of engagements did it relate?
- What is the root cause?
- What aspect of the SOQM is impacted? How significant is that aspect to the SOQM overall?
- Is the deficiency a design deficiency, or was the deficiency in the implementation or operation of the SOQM?
- If there was a failure in a response, were there any compensating responses that were operating effectively?
- How frequently did the underlying issue occur (e.g., if it related to engagements, how many engagements were affected)?
- How quickly did it take for the underlying issue to have an effect on the SOQM, and how long did it last? Is it still ongoing?
- How long did it take to detect the underlying issue through the monitoring activities?

### **Investigating the root cause(s) of identified deficiencies**

Investigating the root cause(s) of identified deficiencies focuses on understanding the underlying circumstances that caused the deficiency. In addition to providing insights to help evaluate the severity and pervasiveness of deficiencies, knowing what caused the deficiency helps remediate it.

The nature of the root cause procedures, and the timing and extent of them, will vary based on several factors including:

- The nature of the identified deficiencies and their possible severity
- The nature and circumstances of your firm

CSQM 1 explains factors that may affect the nature, timing and extent of the procedures to investigate the root cause(s) of deficiencies and demonstrates how those factors apply to specific examples:

- The complexity and operating characteristics of your firm
- The size of your firm
- The geographical dispersion of your firm
- The way your firm is structured or the extent to which your firm concentrates or centralizes its processes or activities



An example of a specific root cause for a deficiency is provided below:

You may identify that some engagement teams performing compilation engagements are failing to document that they considered whether the compiled financial information does not appear misleading (CSRS 4200.30). The underlying root cause of this issue may relate to a cultural environment that does not encourage sufficient direction, supervision and review of the work performed on the engagements.

An effective mechanism for determining the root cause of a deficiency is to ask “why did the deficiency occur?” and keep asking why until the root cause is specific.

If your firm has a single location, your procedures to understand the root cause(s) of an identified deficiency may be simple, since the information to inform the understanding may be readily available and concentrated, and the root cause(s) may be more apparent. (CSQM 1 Para. A166)

CSQM 1 is not prescriptive about the types of procedures that need to be undertaken or who undertakes them, and not all root cause(s) investigations need to be an intense or rigorous process – in some cases, the procedures may be very simple. As a result, the individuals performing the investigation of the root cause(s) exercise professional judgment in determining the nature, timing and extent of procedures needed to properly understand the underlying circumstances that caused the deficiency.

In investigating the root cause(s) of deficiencies, you may identify:

- A deficiency with multiple root causes, which may exist across multiple components or aspects of the SOQM
- Multiple deficiencies affected by the same root cause

### **The evaluation process is iterative and non-linear**

Given the integrated nature of the SOQM, evaluating findings, identifying deficiencies and evaluating the severity and pervasiveness of identified deficiencies (the evaluation process) is an iterative and non-linear process. Furthermore, not all information about findings will be available – i.e., monitoring activities may be ongoing, and new information may become available that may bring into question your judgments previously made related to findings, deficiencies and root cause(s). Accordingly, establishing an evaluation process that is dynamic and responsive facilitates proactive and timely remediation of deficiencies.

### **Examples of how the evaluation framework is iterative and non-linear**

- In investigating the root cause(s) of identified deficiencies that relate to inappropriate judgments on engagements, you determine that the root cause(s) relates to the engagement team’s insufficient knowledge of general accounting concepts. You have findings related to the responses for learning and development of personnel but had not considered them deficiencies. Since you have identified that engagement teams lack sufficient knowledge, the firm adjusts its evaluation of the findings related to the learning and development of personnel and classifies them as deficiencies.

- In evaluating the severity and pervasiveness of deficiencies, you determine that many of the deficiencies lasted several months as it took time for the monitoring activities to detect the deficiencies. You had findings related to the monitoring activities but had not classified the findings as deficiencies. Since you had identified that the monitoring activities took time to detect other deficiencies, you adjust the evaluation of the findings related to the monitoring activities and classify them as deficiencies.

### **Respond to identified deficiencies**

(CSQM 1 Paras. 42-45, A170-A173)

You need to take appropriate action to respond to identified deficiencies. This is achieved through:

- Remediating identified deficiencies in a timely manner to prevent them from recurring
- Evaluating the effectiveness of the remedial actions, and if they are not effective, taking further action

As part of this process, you also address findings related to engagements, when there are engagements for which procedures required were omitted during the performance of the engagements or reports issued may be inappropriate.

### **Design and implement remedial actions**

The remedial actions designed and implemented are required to be responsive to the underlying root cause. Furthermore, the more severe and pervasive the deficiency, the more urgency is needed to design and implement remedial actions.

In some instances, it may take time to properly design and implement remedial actions to address a deficiency, or it may take time for the remedial actions to have their desired effect. In some cases, you may have temporary remedial actions to address the deficiency until such time as the desired remedial actions can be fully designed and implemented.

### **Example of a temporary remedial action**

You use a working paper tool that is provided by a service provider and identify a deficiency related to the tool, whereby it generates incorrect documentation. To remediate the deficiency, you need to request the service provider to correct the tool, which will take time. As a result, as an interim measure, you email the engagement teams and request the engagement team not to use the tool and instead create engagement documents by other means until further notice.

### **Evaluate the remedial actions, and if necessary, take further action**

CSQM 1 requires the individual(s) assigned operational responsibility for the monitoring and remediation process to evaluate the remedial actions and take appropriate actions to respond to the evaluation.

**Are the remedial actions appropriately designed to address the identified deficiencies and their related root cause(s), and have they been implemented?**

The individual assigned operational responsibility for the monitoring and remediation process may undertake this part of the evaluation as soon as the remedial actions have been designed and implemented.

**Once remedial actions have been implemented, have they been effective in addressing the identified deficiency?**

The individual assigned operational responsibility for the monitoring and remediation process may undertake this part of the evaluation once the remedial action has operated for a sufficient amount of time to fully work through the SOQM so that it can be determined whether it has been effective. In some cases, which may be more immediate, and in other cases, the remedial action may need to operate for some time before its effectiveness can be considered.



If the evaluation indicates that these are not satisfactory (i.e., the remedial actions are not appropriately designed, not implemented, or not effective), the individual is required to take further appropriate action to ensure the remedial actions are appropriately modified.

**Address findings related to engagements, if necessary**

Findings (which may indicate a deficiency) may have affected the underlying engagements. Since you focus your efforts on designing and implementing remedial actions to prevent deficiencies from reoccurring, it is not necessary to rectify all findings. However, when the findings have indicated that there is an engagement(s) for which procedures required were omitted during the performance of the engagement(s) or the report issued may be inappropriate, you are expected to take further action as follows:

- Take appropriate action to comply with relevant professional standards and applicable legal and regulatory requirements, as applicable. For example, omitted procedures may be performed, the matter may be discussed with management or TCWG or there may be consultation within your firm.
- When the issued report is inappropriate in the circumstances, your firm may consider the implications and take appropriate action, including considering whether to obtain legal advice.

**Ongoing communication related to monitoring and remediation**

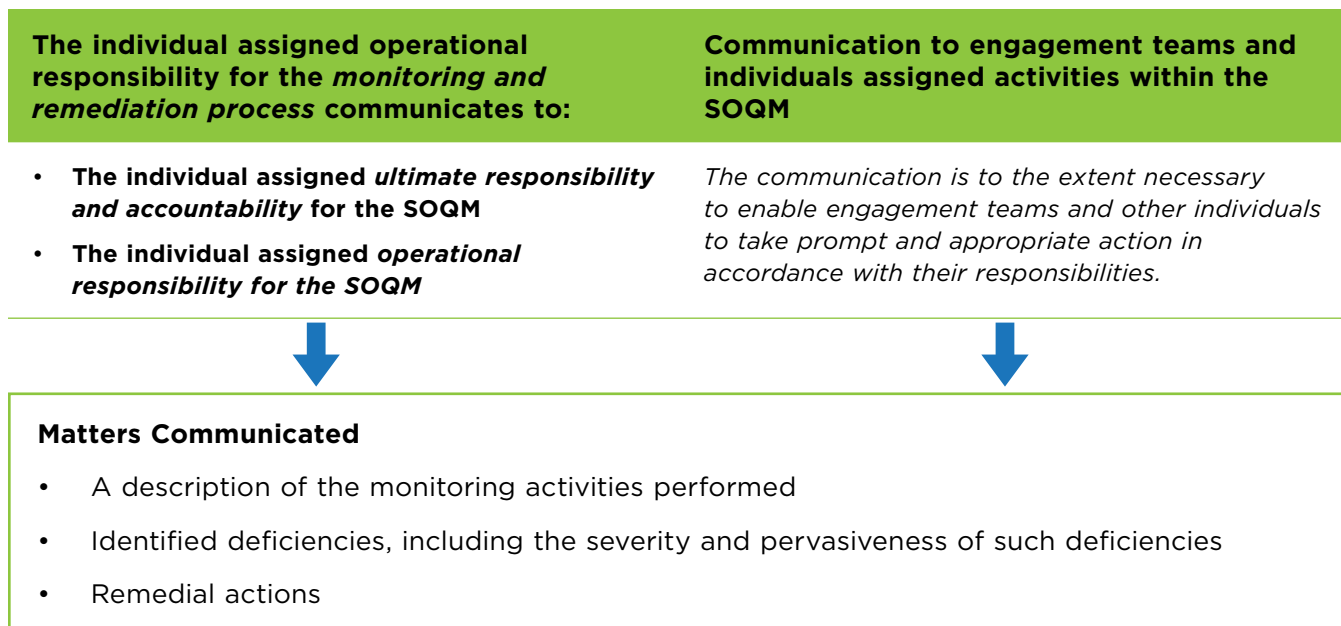
(CSQM 1 Paras. 46-47 and A174)

Information from the monitoring and remediation process is used throughout the SOQM and is also used by engagement teams. For example:

- Leadership uses the information as a basis for the annual evaluation of the SOQM, to determine what to communicate to personnel, to hold individuals accountable for their responsibilities or to identify key issues in a timely manner.

- Individuals assigned activities within the SOQM use the information to perform their functions related to the SOQM.
- Engagement partners use the information to establish whether the engagement team may depend on your firm's policies or procedures in performing the engagement, or areas where further responses are needed at the engagement level.

CSQM 1 includes minimum requirements of what needs to be communicated related to monitoring and remediation, including by whom, and to whom, as follows:



**Examples of matters communicated to engagement teams and personnel (i.e., to extent necessary to enable them to take prompt and appropriate action)**

- Engagement teams – the information communicated may be focused on deficiencies that have been identified at engagement level, and the remedial actions.
- Personnel – information communicated to **all** personnel may relate to deficiencies related to independence, and the remedial actions.



**QUESTION 35**

**I am a sole practitioner, without staff, and I assume responsibility for all aspects of the SOQM. Are the on-going communication requirements related to monitoring and remediation relevant?**

No, if you have the ultimate responsibility and accountability for the SOQM, including the operational responsibility for the SOQM and the monitoring and remediation, then there is no need for the ongoing communication related to monitoring and remediation, as it would be redundant.

(CSQM 1 Para. 46)

## Appendix I – Evaluating the SOQM

(CSQM 1 Paras. 53-56 and A87-A201)

CSQM 1 includes requirements for the individual(s) assigned ultimate responsibility and accountability for the SOQM to evaluate the SOQM. Based on the evaluation, the individual(s) is required to conclude on whether the objectives of the SOQM **are being** achieved.

The evaluation is at a point in time, and the conclusion is focused on whether the SOQM provides *reasonable assurance* that:

- Your firm and its personnel **are fulfilling** their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and engagements **are being** conducted in accordance with such standards and requirements.
- Reports **being** issued by your firm and engagement partners are appropriate in the circumstances.

The evaluation is internal to your firm, and your firm is not required to obtain independent assurance about the effectiveness of its SOQM.

### Why the individual(s) assigned ultimate responsibility and accountability for the SOQM evaluates the SOQM

Although the evaluation of the SOQM can be seen as a self-assessment, it is important to reinforcing the responsibility and accountability of the individual(s) assigned ultimate responsibility and accountability for the SOQM. The outcome of the evaluation of the SOQM may be indicative of how leadership has fulfilled their responsibilities, and therefore is an essential consideration in undertaking the performance evaluations of leadership.

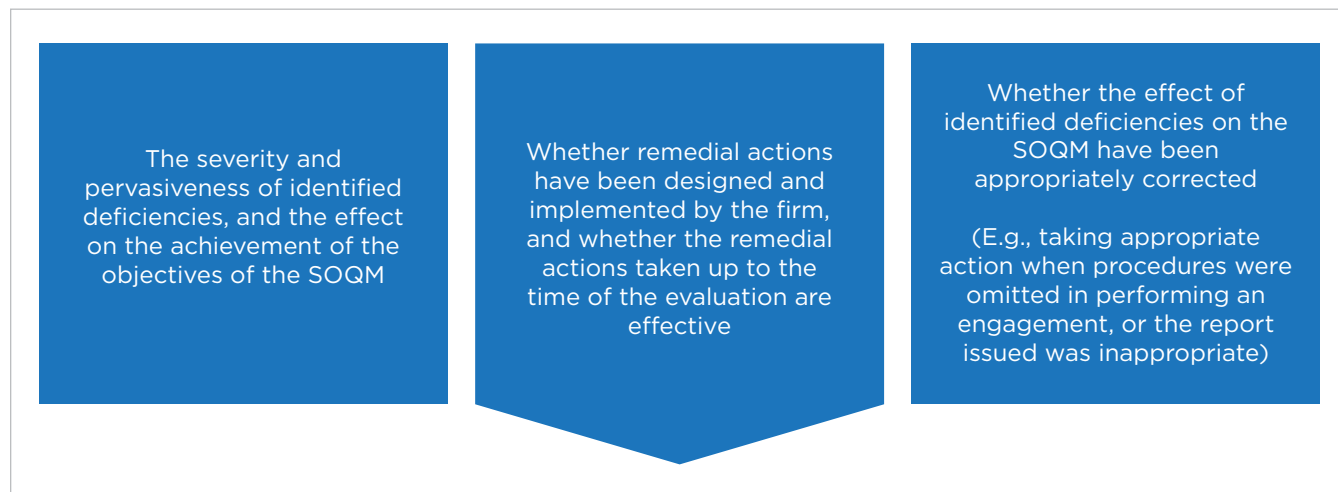
Although the individual(s) assigned ultimate responsibility and accountability for the SOQM undertakes the evaluation, your firm remains responsible for the evaluation through holding the individual(s) responsible and accountable for their assigned role. In other words, your firm is required to ensure that the evaluation is undertaken, by holding the individual accountable for doing the evaluation.

### How the evaluation is undertaken, including what information is considered

CSQM 1 recognizes that the individual(s) assigned ultimate responsibility and accountability for the SOQM may be assisted by others in performing the evaluation; however, the individual(s) remains responsible and accountable for the evaluation.

Based on the evaluation of the SOQM, the individual(s) assigned ultimate responsibility and accountability for the SOQM is required to conclude on whether the objectives of the SOQM are being achieved. In accordance with paragraph A190 of CSQM 1, the individual(s) may consider the following in concluding on the SOQM:

FIGURE 11



Once a remedial action(s) has been designed and implemented, its effectiveness may be evident more immediately, or the remedial action may need to operate for some time before its effectiveness will be evident. Paragraph 43 of CSQM 1 recognizes the notion that remedial actions may take time to operate, since it requires the individual(s) assigned operational responsibility for the monitoring and remediation process to evaluate whether the remedial actions:

- Are appropriately *designed* to address the identified deficiencies and their related root cause(s) and determine that they have been *implemented*
- Implemented to address *previously identified* deficiencies are *effective*

Paragraph A189 of CSQM 1 explains that the information that provides the basis for the evaluation of the SOQM includes the information communicated by the individual(s) assigned operational responsibility for the monitoring and remediation process in accordance with paragraph 46 of CSQM 1. Such information may include information about the evaluation of the remedial actions undertaken in accordance with paragraph 43 of CSQM 1. Therefore, in considering whether remedial actions *taken up to the time* of the evaluation are effective, the individual(s) assigned ultimate responsibility and accountability for the SOQM may, for example:

- Use the information from the evaluation of remedial actions undertaken in accordance with paragraph 43 of CSQM 1
- Consider other information that may be available about the effectiveness of remedial actions that have been operating, including those operating for a short period
- In relation to a remedial action that still may need some time to operate, take into account various matters such as:
  - the nature of the identified deficiency(ies) and the root cause(s) to which the remedial action relates
  - the severity and pervasiveness of the identified deficiency(ies)

- the timeliness in implementing the remedial action and planned timing of operation of the remedial action, and whether the timing is commensurate with the urgency with which the identified deficiency(ies) and related root cause(s) need to be addressed
- whether any scheduled or expected interim targets for effectiveness have been achieved
- the effect of any temporary or interim measures that were taken while the desired remedial action is being fully designed and implemented
- whether similar remedial actions implemented by the firm have been effective

When a remedial action was designed and implemented but not yet operating at the time of the evaluation of the SOQM, in the subsequent period, the effectiveness of that remedial action would be evaluated in accordance with paragraph 43(b) of CSQM 1. It may be possible that it is determined that the remedial action was not effective. Depending on a number of factors, including how the firm has responded to the ineffective remedial action, and the severity and pervasiveness of the related deficiencies, it may affect the conclusion on the SOQM in the subsequent year.

## Appendix J – Acronyms and Definitions

The following acronyms and definitions are relevant to this *Tool*:

Acronym	Description
AASB	Auditing and Assurance Standards Board
CSQM	Canadian Standard on Quality Management
SOQM	System of Quality Management
TCWG	Those Charged With Governance

### Definitions

(CSQM 1 Para. C16)

The following terms have the meanings attributed below:

- **Deficiency in the firm’s system of quality management** (referred to as “deficiency” in CSQM 1) – This exists when:
  - A quality objective required to achieve the objective of the system of quality management is not established;
  - A quality risk, or combination of quality risks, is not identified or properly assessed;
  - A response, or combination of responses, does not reduce to an acceptably low level the likelihood of a related quality risk occurring because the response(s) is not properly designed, implemented, or operating effectively; or
  - Another aspect of the system of quality management is absent, or not properly designed, implemented, or operating effectively, such that a requirement of this CSQM 1 has not been addressed.
- **Engagement documentation** – The record of work performed, results obtained and conclusions the practitioner reached (terms such as “working papers” or “work papers” are sometimes used).
- **Engagement partner** – The partner or other individual, appointed by the firm, who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body. (“Engagement partner” and “partner” are to be read as referring to their public sector equivalents where relevant.)
- **Engagement team** – All partners and staff performing the engagement, and any other individuals who perform procedures on the engagement.
- **External inspections** – Inspections or investigations, undertaken by an external oversight authority, related to the firm’s system of quality management or engagements performed by the firm.



- **Findings** (in relation to a system of quality management) – Information about the design, implementation and operation of the system of quality management that has been accumulated from the performance of monitoring activities, external inspections and other relevant sources, which indicates that one or more deficiencies may exist.
- **Firm** – A sole practitioner, partnership or corporation or other entity of professional accountants, or public sector equivalent.
- **Partner** – Any individual with authority to bind the firm with respect to the performance of a professional services engagement.
- **Personnel** – Partners and staff in the firm.
- **Professional judgment** – The application of relevant training, knowledge and experience, within the context of professional standards, in making informed decisions about the courses of action that are appropriate in the design, implementation and operation of the firm’s system of quality management.
- **Professional standards** – Assurance Engagement Standards, as defined in the Preface to the *Handbook*, and relevant ethical requirements.
- **Quality objectives** – The desired outcomes in relation to the components of the system of quality management to be achieved by the firm.
- **Quality risk** – A risk that has a reasonable possibility of:
  - Occurring; and
  - Individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives.
- **Reasonable assurance** – In the context of the CSQMs, a high, but not absolute, level of assurance.
- **Relevant ethical requirements** – Ethical requirements to which the engagement team and engagement quality reviewer are subject, which comprise relevant independence and other ethical requirements set out in rules of professional conduct / code of ethics applicable to the practice of public accounting issued by the various professional accounting bodies.
- **Response** (in relation to a system of quality management) – Policies or procedures designed and implemented by the firm to address one or more quality risk(s):
  - Policies are statements of what should, or should not, be done to address a quality risk(s). Such statements may be documented, explicitly stated in communications, or implied through actions and decisions.
  - Procedures are actions to implement policies.
- **Service provider** (in the context of CSQM 1) – An individual or organization external to the firm that provides a resource that is used in the system of quality management or in the performance of engagements. Service providers exclude the firm’s network, other network firms or other structures or organizations in the network. (Ref: Para. A28, A105)
- **Staff** – Professionals, other than partners, including any experts the firm employs.

- **System of quality management** – A system designed, implemented and operated by a firm to provide the firm with reasonable assurance that:
  - The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
  - Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.

## About This Publication

The Research, Guidance and Support group of the Chartered Professional Accountants of Canada (CPA Canada) undertakes initiatives to support practitioners and businesses in the implementation of standards.

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