

# Audit and Assurance Alert

## CANADIAN STANDARDS ON QUALITY MANAGEMENT

AUGUST 2022

## Moving from Quality Control to Quality Management

### STANDARD DISCUSSED

Canadian Standard on Quality Management (CSQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

This Audit & Assurance Alert (*Alert*) is being issued to help practitioners who previously applied Canadian Standard on Quality Control (CSQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements*, and are transitioning to CSQM 1 in designing and implementing their firm's system of quality management (SOQM).

### What Do You Need to Know?

In January 2021, the Auditing and Assurance Standards Board (AASB) unanimously approved the suite of quality management standards, including CSQM 1. CSQM 1 replaces CSQC 1.

### CSQM 1 is coming into effect

Firms are required to design and implement their system of quality management for **audits or reviews of financial statements or other assurance engagements** by December 15, 2022. They are required to evaluate their system within one year following this date.

## Why Should You Read This *Alert*?

The new suite of quality management standards at the firm and engagement level brings a significant number of changes for Canadian practitioners performing any engagement addressed by standards in the *CPA Canada Handbook – Assurance*. For firms who have already applied CSQC 1, your existing policies and procedures will likely continue to be relevant. This *Alert* provides tips for approaching your transition to CSQM 1.

## What has changed between CSQC 1 and CSQM 1?

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

The following table compares the features of CSQC 1 and CSQM 1 as well as the elements of a system of quality control (SOQC) and an SOQM. Key differences in the elements introduced by CSQM 1 are bolded.

Comparison Points	CSQC 1 (Old standard)	CSQM 1 (New standard)
<b>Key differences</b>	<ul style="list-style-type: none"> <li>policies and procedures set out in requirements</li> </ul>	<ul style="list-style-type: none"> <li>risk-based approach</li> </ul>
<b>Key features</b>	<ul style="list-style-type: none"> <li>generic policies and procedures with minimal emphasis on the circumstances of the firm</li> </ul>	<ul style="list-style-type: none"> <li>scalable to the nature and circumstances of the firm and the engagements it performs</li> <li>proactive approach to managing quality to prevent quality failures</li> </ul>
<b>Elements vs. components</b>	Elements of a system of <b>quality control</b> <ol style="list-style-type: none"> <li>leadership responsibilities</li> <li>relevant ethical requirements</li> <li>acceptance and continuance</li> <li>human resources</li> <li>engagement performance</li> <li>monitoring</li> </ol>	Components of a system of <b>quality management</b> <ol style="list-style-type: none"> <li>governance and leadership</li> <li><b>risk assessment process</b></li> <li>relevant ethical requirements</li> <li>acceptance and continuance</li> <li><b>resources</b></li> <li>engagement performance</li> <li><b>information and communication</b></li> <li>monitoring <b>and remediation process</b></li> </ol>

Many elements from CSQC 1 carry over and will continue to be applicable under CSQM 1. Your firm already has policies and procedures that address the elements of the SOQC. These same policies and procedures can continue to address risks identified during the risk assessment process of your SOQM. Some additional considerations may need to be included and existing procedures may benefit from being cross-referenced to better interact with each other. One such example may be risks related to resources – where CSQC 1 focused on human resources, CSQM 1 takes a broader view of resources to include service providers, technological resources, intellectual resources and other resources relevant to your firm’s service delivery.

Where the firm may not have any policies or procedures to address a particular quality risk objective in the SOQM, this is an opportunity to identify new responses or to reengineer existing policies and procedures. Similarly, the firm’s CSQM 1 implementation work effort could be focused on closing these specific gaps.

### Scaling CSQM 1 to your firm and circumstances

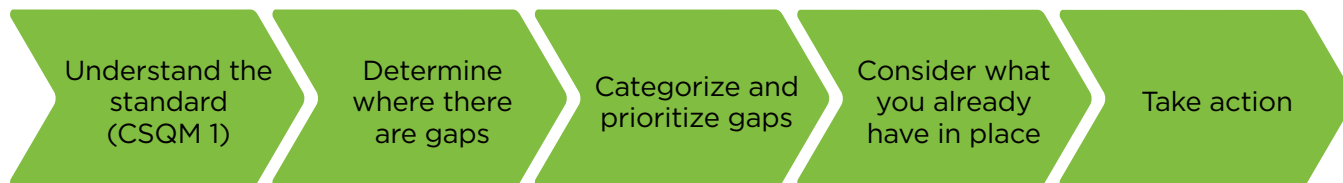
The new approach to quality is a risk-based approach focused on achieving quality objectives. The quality objectives set by the firm are outcome-based. The approach is grounded in a risk assessment that identifies quality risks specific to the firm and the engagements it performs.

There are very few “required” responses embedded in the standard, so the details of how your firm responds to the identified quality risks are scalable and specific to your firm. Similarly, the nature and extent of documentation needed to support your risk assessments and communicate and effect your planned responses is also scalable to fit your firm’s circumstances. Ultimately, you know your firm best so while many firms will face common risks, each firm’s response will be specific and scalable to its structure, clientele, nature of services provided, geography, staff complement, etc.

### Making the move from a system of quality control to a system of quality management

Wondering how to start with your existing SOQC and move to the new SOQM?

FIGURE 1:



Here are some suggested steps to get started:

1. **Understand the standard.** The time spent up front understanding what it is you need to do is likely to make the process of designing the SOQM easier.

Check out resources, such as the Practitioner’s Pulse webinars from June 2021 and 2022 on the [CPA Canada Quality Management resource page](#), to develop your understanding of the new standards and the requirements applicable to your firm.

The quality objectives across the various components are interrelated and interdependent and so may overlap or support an objective in another component.

The applicable quality objectives are based on the nature and circumstances of your firm and engagements. While not expected to be common, there may be instances where the nature or circumstance of your firm and the engagements provided may result in the need to establish additional objectives.

2. **Determine where there are gaps.** What quality risks exist for the firm? Consider the impacts of recent changes in personnel and responsibility assignment: How have recent legal or other matters been resolved and prevented in the future?

Use your understanding of the firm to identify the conditions, events, circumstances, actions or inactions that could adversely impact the established quality objectives. Involve leaders and other personnel as appropriate to identify risks that may impact the quality objectives.

3. **Categorize and prioritize gaps.** Identifying and responding to every possible risk is neither expected nor practicable. When assessing the risks, consider the likelihood of the risk occurring and the degree to which the risk will impact the firm's quality objectives. Your knowledge and understanding of the nature and circumstances of the firm as well as the engagements performed will inform this assessment.

While no ratings are required, you can assess the likelihood and impact using different methods such as "Yes/No," "Low/Medium/High" or a numerical scale. It is up to the firm's professional judgment to decide what would cause a risk to be categorized as a quality risk. For example, the firm may decide to use "Yes/No" as the scale and only identify something as a quality risk if both questions "Is it likely?" and "Will there be a significant impact?" are answered "Yes."

4. **Consider what your firm already has in place.** What policies or procedures already exist? How do these policies and procedures address the components of the SOQM?

In most cases, many aspects of your firm will already be well-known, however a brainstorming session between the leadership group (and others if needed) may help in gathering additional relevant information needed to identify risks.

5. **Take action.** What do you need to address immediately, versus what can be addressed in the longer term? Consider what actions will result in the greatest impact.

SOQM is an iterative process. New quality risks and related responses including policies and procedures will be discovered, established and modified throughout the year.

## What Resources Are Available?

Reading the standards in the *CPA Canada Handbook – Assurance*:

- 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*
- CAS 220, *Quality Management for an Audit of Financial Statements*

Reading the corresponding *Basis for Conclusions* documents

- May 2021 – CSQM 1, CSQM 2 and CAS 220
- May 2022 – Conforming amendments to Other Canadian Standards

CPA Canada non-authoritative [Quality management guidance resources](#) including Practitioner's Pulse webinars:

- May 2021 – *Alert*: Quality Management Standards
- June 2021 – Webinar: Introducing CSQM 1, CSQM 2, and CAS 220
- March 2022 – CSQM 1 Implementation Tool for Practitioners
- May 2022 – *Alert*: Quality Management Conforming Amendments
- June 2022 – Webinar: Practical Application Considerations

### [International guidance and resources:](#)

The quality management standards in Canada (CSQM 1, CSQM 2, and CAS 220) are largely aligned with the equivalent international standards (ISQM 1, ISQM 2, and ISA 220). The International Auditing and Assurance Standards Board (IAASB) has created implementation guides that lay out the differences between the old and new standards and provide detailed guidance on addressing each objective.

## Feedback

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

### **Andrea Lee, CPA, CA**

Principal, Audit and Assurance  
 Research, Guidance and Support  
 Chartered Professional Accountants of Canada  
 277 Wellington Street West  
 Toronto, Ontario M5V 3H2  
 Email: [andrealee@cpacanada.ca](mailto:andrealee@cpacanada.ca)

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