

# THE NEW QUALITY CONTROL STANDARD

## Your Firm's Top Five "To-Do" List

### QUESTIONS TO ASK YOURSELF

- What is the new Canadian Standard on Quality Control (CSQC 1)?
- When is the compliance deadline?
- Am I impacted?
- How different is it from what I'm doing today?
- What do I need to do?

### INTRODUCTION

There has never been a time of such sweeping change in the accounting profession as we are experiencing today. While IFRS has been acknowledged as a significant overhaul of the accounting guidelines for the profession, the changes in the auditing rules haven't received as much media attention. In a move to converge with international standards, the Auditing and Assurance Standards Board (AASB) has adopted 36 International Standards on Auditing (ISAs) as Canadian Auditing Standards (CASs) and one standard on quality control. All of these CASs are effective for Canadian practitioners for engagements with periods ending on or after December 14, 2010. However, it is the lone standard on quality control that comes into effect first, in fact, a whole year earlier. Watch out because that deadline is fast approaching and is only months away at **December 15, 2009**.

Not all practitioners are fully aware of the implications of this new standard on quality control. This new Canadian Standard on Quality Control, called CSQC 1, *Quality Control for Firms that Perform Audits and Reviews for Financial Statements and other Assurance Engagements* replaces the current Canadian rules in effect under GSF-QC<sup>1</sup>. It essentially adopts the requirements of the International Standard on Quality Control, ISQC 1, with a few notable exceptions.

It is critical that firms act now to understand the requirements of CSQC 1 and take the necessary steps to fully comply. By understanding the evolution of the rules, becoming aware of the key differences in requirements and acting now on the Top Five To-Dos, you can ensure you make it to the finish line by December 15, 2009.

### THE EVOLUTION

Canada is in the process of adopting CASs. Once effective, the CASs would constitute Canadian Generally Accepted Auditing Standards (GAAS) for audits of financial statements. These CASs are based on international standards, a set of standards referred to as ISAs, with only minor changes to adapt them to the Canadian environment. From a quality control perspective, Canada's move to adopting CSQC 1 is part of the overall initiative to align with international requirements. CSQC 1 addresses the policies and procedures firms must put in place

<sup>1</sup> General Standards of Quality Control for Firms Performing Assurance Engagements

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## Transition Timeline



### Quality Control Standards for Firms for All Assurance Engagements



**Dec. 15, 2009**  
CSQC 1 becomes effective. Quality Control systems must comply with CSQC 1 from this date.

### Canadian GAAS for Financial Statement Audits



**Dec. 14, 2010**  
New Audit Standards become effective for audits of financial statements for periods ending on or after this date. Early adoption is not permitted.

During the transition, auditors will begin using the new standards and new Audit Report for certain audits, while continuing to use the current standards and current Audit Report for other audits, depending on the year-ends of their clients, and the timing of the audit work.

For example for year ends:

- Nov. 30, 2010 — Audit and Audit Report under current standards
- Dec 31, 2010 — Audit and new Audit Report under CASs

to establish and maintain a system of sufficient quality control to meet professional, legal and regulatory requirements. It also addresses the policies and procedures firms should establish to provide reasonable assurance that the assurance reports issued are appropriate given individual circumstances. Furthermore, firms must have procedures in place to implement and monitor compliance with these policies.

## WHAT FIRMS ARE AFFECTED

One interesting aspect of CSQC 1 is that it only applies to assurance engagements (i.e. audits and reviews). This represents a significant deviation from ISQC 1 which extends beyond audits and reviews to also include related services such as compilation engagements. All Canadian firms who perform any audits or reviews must have a quality control system that complies with CSQC 1 in place by December 15, 2009.

## WHAT FIRMS NEED TO KNOW

With an impending deadline of December 15, 2009, firms must act now to ensure they have the processes, procedures and documentation in place to meet these requirements. Although CSQC 1 is not radically different from existing GSF-QC standards, there are a few notable exceptions:

- **Engagement reviews must be substantially completed prior to the audit report date.** Under CAS 700, audit reports must be dated no earlier than the date the auditor has obtained sufficient appropriate evidence. An Engagement Quality Control Review (EQCR), deemed necessary for financial statements of listed entities and those engagements meeting a firm’s pre-set criteria<sup>2</sup> requiring an EQCR, assists the auditor in determining whether sufficient appropriate evidence has been obtained. Consequently, for audits of financial statements requiring an EQCR, the review needs to be completed prior to the date of the auditor’s report.
- **Monitoring team personnel assigned to review a file as part of a cyclical monitoring inspection cannot have been part of the engagement team or the EQC Reviewer on the engagement.** Monitoring files is an after-the-fact inspection of files, which is different from

2 Criteria for determining which engagements other than audits of financial statements of listed entities are to be subject to an engagement quality control review may include, for example:

- The nature of the engagement, including the extent to which it involves a matter of public interest.
- The identification of unusual circumstances or risks in an engagement or class of engagements.
- Whether laws or regulations require an engagement quality control review.

the EQCR. GSF-QC allowed a person who performed the engagement or the EQCR to also perform monitoring, although firms were encouraged to use an independent person to perform the monitoring where possible. CSQC 1 follows the same principles but goes one step further to specifically require the use of a person not involved with the engagement to perform a monitoring file review.

### YOUR FIRM’S TOP FIVE TO-DO LIST

Leading firms are already well on their way preparing for the transition to CSQC 1. If your firm does not fall into that category, it is not too late to do what is necessary to comply with the requirements. It is important to act now to get your firm ready.

The key steps in preparing for adherence can be summarized in these “Top Five-To-Dos”:

#### 1. Read & Review

First and foremost, practitioners should read CSQC 1 to ensure they understand the full requirements. Don’t fall into the trap of only reading recaps or executive summaries. Without reading the full standard, there is a real risk that aspects of the requirements will get missed.



CSQC 1 is available at the link below. Login to Knotia is required.

<http://www.knotia.ca/Knowledge/View/Document.aspx?productId=126&bookId=200917911&persistentBookId=911&documentId=5&paragraphId=2&gotoStr=CSQC+1>

Appoint a firm representative to review the current system of quality control. Does it meet all of the current GSF-QC requirements? If so, you can focus your analysis on the differences between GSF-QC and the new CSQC 1 requirements. Highlight the differences for review by the firm and consider what changes need to be made. If your current system of quality control does not meet all of the current GSF-QC requirements, a more fulsome analysis needs to be performed. Consider if your firm has had any significant changes in its operations in recent years. For example, if your firm has accepted a new partner, started providing new services, or accepted new types of clients, it may be indicative that the current system of quality control may need to be updated.

#### 2. Document

Once a gap analysis has been performed between the current system of quality control and the full requirements of CSQC 1, the current system of quality control must be updated for all the required changes. New policies and procedures should be adopted where necessary, and all of these revisions and additions must be adequately documented within the quality control manual. The quality control manual represents a key communication tool between all partners and staff to set expectations and to use as a benchmark for evaluating performance.



Firms should look for good practices and consider adding further policies and procedures to best meet the overall goal of promoting lasting quality in the firm processes.

#### 3. Implement

It is not too early to start making changes to the policies and procedures of the firm. For example, the CSQC 1 requirement to complete the EQCR prior to dating the audit report represents a change in process for some firms. Firms may have to plan for EQCR reviews to be performed at appropriate stages **throughout** the audit engagement to allow for ample time to successfully complete the EQCR before the dating of the audit report. A good practice approach is to determine if it is possible to substantially complete the EQCR prior to the end of fieldwork. This promotes a higher quality and more efficient audit as audit issues are addressed earlier in the process, while auditors still have full access to the client and any additional records required to finalize their audit work. A change in policy such as this must be identified, documented and implemented within the firm. Performance must then be monitored and tracked to determine if the changes have been fully implemented as designed. Firms should consider setting individual target dates for engagement reviews and tracking such metrics as the first date of audit, last day of fieldwork, date of reviews, and audit report date.

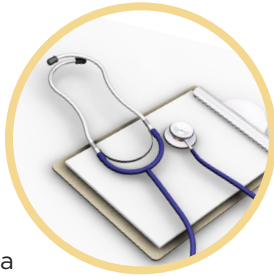


In an engagement requiring an EQCR, the date of completion of the EQCR must be documented in the file. The substance of the review and any differences of opinion must be resolved before dating of the report. All administrative aspects regarding assembly of the final file, however, can be done at a later time, as long as it’s within 45 days of the report release date as required by Section 5145, Documentation. When the CASs become effective, CAS 230 Docu-

mentation will apply. Accordingly, for audits of financial statements, the administrative aspects of assembly of the final file should be normally completed within 60 days of the date of the audit report.

### 4. Assess Needs

CSQC 1 specifically prohibits the use of engagement personnel involved with performing an engagement from also performing an inspection of that particular file. This means firms must create a system for assigning monitoring duties across audit teams to meet this requirement.



The monitoring program must be cyclical, although not necessarily annual. For non-risky engagements, a three year cycle may be appropriate. For risky engagements, or engagements where quality has been a concern in the past, the firm may consider more frequent reviews, such as on a one or two year cycle. Firms may also build a system to obtain adequate coverage across industries and types of assurance engagements into their monitoring plan. Further, firms may consider targeting more file reviews for year ends affected by the new audit and accounting standards to ensure staff have updated procedures and approaches appropriately.

This independent monitoring requirement poses a unique challenge to smaller firms and sole proprietors. As such, firms should assess their resource needs and consider seeking assistance from outside their firm. Firms that fall into this category may consider making arrangements with other smaller firms or sole proprietors to perform a monitoring inspection of each others' files as required by the monitoring requirements. This process need not be time consuming and will likely result in a beneficial sharing of ideas relating to quality improvement and audit efficiency.

### 5. Education & Training

Firm-wide training on new CSQC 1 requirements is essential for a smooth transition. It is integral for firms to create an awareness of the impending changes, along with detailed guidance as to what the changes are, how the system of quality control has been updated as a result, and instruction regarding all changes to firm policies and procedures.



By providing firm-wide training to all partners and staff, firms can deliver a consistent message to all. Firms can use the new CSQC 1 to help promote the firm's commitment to quality and the use of best practices. An initial training session to launch the new requirements should be followed up and reinforced with periodic reminders of the firm's responsibility to adhere to the requirements and spirit of CSQC 1.

### IN SUMMARY

The adoption of CSQC 1 provides Canadian firms with the opportunity to further promote an internal culture that recognizes that quality is essential in everything they do. With only a few months to go, firms need to act now on the Top Five To-Dos to successfully comply with CSQC 1 by December 15, 2009!

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