

June 28, 2019

Mr. Willie Botha  
Technical Director  
International Auditing and Assurance Standards Board  
International Federation of Accountants  
585 Fifth Avenue – 14th Floor  
New York, NY 10017  
U.S.A.

Dear Mr. Botha,

**Re: The IAASB’s Exposure Drafts for Quality Management at the Firm and Engagement Level,  
Including Engagement Quality Reviews**

The Canadian Auditing and Assurance Standards Board (AASB) is pleased to provide its comments on the IAASB’s Exposure Drafts for Quality Management at the Firm and Engagement Level, Including Engagement Quality Reviews (ED-QM).

In developing our response, we considered comments provided by our stakeholders. AASB staff held various consultation sessions with Canadian stakeholders and considered response letters received on the AASB’s Exposure Draft (ED) on this topic. The [Appendix](#) provides a summary of the consultation sessions and the written responses to the AASB’s ED. In our response, “Canadian stakeholders” refers to those who provided us with input. Also, “we” refers to the AASB.

Our comments are set out under the following main heading: Request for Comments

Editorial comments on proposed conforming amendments have been provided directly to the IAASB staff.

We hope that these comments will be useful to the IAASB in determining the appropriate next steps relating to this key project. If you have any questions or require additional information, please contact me at [kcharbonneau@aabscanada.ca](mailto:kcharbonneau@aabscanada.ca).

Yours very truly,



Ken Charbonneau FCPA, FCA, ICD.D  
Chair, Auditing and Assurance Standards Board (Canada)

c.c. Canadian Auditing and Assurance Standards Board members  
Julie Corden, CPA, CA, IAASB Member  
Eric Turner, CPA, CA, IAASB Member

## REQUEST FOR COMMENTS

### Overall Questions

- 1) Do you support the approach and rationale for the proposed implementation period of approximately 18 months after the approval of the three standards by the Public Interest Oversight Board? If not, what is an appropriate implementation period?**

No. It is unlikely that 18 months will give all stakeholders (e.g., firms, those who prepare guidance, trainers, national standard setters, etc.) sufficient time to prepare. Poor implementation may have negative implications as a firm's system of quality management applies to all the firm's engagements covered under the standard. We believe a longer implementation period of 24 months would give stakeholders sufficient time to achieve a successful implementation. It will also give stakeholders time to translate the standards, where translation is necessary.

The objective of ED-ISQM 1 is for firms to design, implement and operate a system of quality management. The effective date states that systems of quality management are required to be established by a certain date. We believe the IAASB should clarify what "required to be established" means to eliminate ambiguity and ensure a uniform understanding by all firms. We recognize that this wording is consistent with extant ISQC 1. However, "establishing" may not necessarily result in implementation or operation. For example, it is not clear to us whether monitoring activities are "established" when they have been designed, or whether "established" means that they must be in operation, which requires a longer timeframe.

We suggest that the IAASB either:

- change the wording of the effective date to be "The firm is required to design, implement and operate its system of quality management by TBD," or
- consider whether the effective date should be bifurcated (for example, firms must design and implement systems of quality management by a certain date and the system of quality management must be in operation for engagements beginning on or after that date).

- 2) In order to support implementation of the standards in accordance with the IAASB's proposed effective date, what implementation materials would be most helpful, in particular for SMPs?**

As noted in our response to ED-ISQM 1, SMPs will need guidance around the risk assessment process. Many practitioners in smaller practices, particularly those who perform mostly reviews and non-assurance engagements, are not accustomed to performing risk assessments on their engagements. As a result, it will be difficult for those firms to apply a risk assessment process to their firm's system of quality management.

Such practitioners will need guidance on how to identify, assess and respond to quality risks. The IAASB should consider providing examples of quality risks that might be common to firms of a similar size.

In addition, Canadian stakeholders suggested that the following implementation materials may be helpful for SMPs:

- Guidance on assessing the degree of the likelihood of a quality risk occurring and the significance of the effect of the identified quality risks on the achievement of the quality objectives.
- More examples, similar to the draft examples that were included with ED-ISQM 1, of how the nature and circumstances of the firm and the engagements it performs affect the implementation of ED-ISQM 1. This will help demonstrate how requirements can be customized and implemented, depending on the nature and circumstances of the firm and the types of engagements it performs.
- Case studies that could set out a possible process that firms would follow to develop their systems of quality management. Such case studies could help practitioners apply the requirements to their specific situations.
- Examples of how in-process reviews might be implemented for audits of smaller or less complex entities and other engagements, such as review engagements, where an in-process review might be an appropriate response to an assessed quality risk.

### General Questions

- (a) ***Developing Nations—Recognizing that many developing nations have adopted or are in the process of adopting the International Standards, the IAASB invites respondents from these nations to comment on the proposals, in particular, on any foreseeable difficulties in applying it in a developing nation environment.***

We have no comments on this question.

- (b) ***Public Sector—The IAASB welcomes input from public sector auditors on how the proposed standards affect engagements in the public sector, particularly regarding whether there are potential concerns about the applicability of the proposals to the structure and governance arrangements of public sector auditors.***

In our response to Question 11 in ED-ISQM 1, we note that Canadian stakeholders expressed concerns about the requirements related to “entities with significant public interest”. They noted that many audits of financial statements performed in the public sector may need to be subject to EQR because the entity appears to be of significant public interest. However, there may be no assessed quality risk for a particular engagement for which an EQR is an appropriate response. More guidance is needed on how to determine when the audit of financial statements of a public sector entity may or may not be of significant public interest. For example, public sector auditors may consider such factors as financial magnitude and public sensitivity. Such factors could be added to application material in ED-ISQM 1.

- (c) ***Translations—Recognizing that many respondents may intend to translate the final ISQMs and ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents may note in reviewing the proposed standards.***

We have no comments on this question.

Through the exposure period, the AASB held various consultation sessions as follows:

Location of consultation session	Date(s)	In Attendance
Video roundtable consultations – open to all stakeholders	May 14, 16, 22 and 23	<ul style="list-style-type: none"> <li>• 19 practitioners from SMPs/Sole Practitioners</li> <li>• Some perform audits, reviews and compilations, while others are compilation-only</li> </ul>
Video roundtable consultation – CPA British Columbia	May 2	<ul style="list-style-type: none"> <li>• 17 practitioners from SMPs/Sole Practitioners</li> <li>• 2 CPA Quebec staff members</li> </ul>
Virtual roundtable Consultations – CPA Quebec	May 6	<ul style="list-style-type: none"> <li>• 7 practitioners from SMPs</li> <li>• 1 academic</li> <li>• 1 AASB board member</li> <li>• 3 CPA Quebec staff members</li> <li>• 1 member from the public sector</li> </ul>
In-person roundtable consultation – CPA Ontario SMP Committee	May 10	<ul style="list-style-type: none"> <li>• 11 practitioners from SMPs/Sole Practitioners</li> <li>• 4 staff of CPA Ontario</li> </ul>
Video roundtable consultation – Compilation Engagements Task Force	May 21	<ul style="list-style-type: none"> <li>• 4 practitioners from SMPs/Sole Practitioners</li> <li>• 2 staff of provincial bodies of CPAs</li> </ul>
In-person workshop to field test the proposals (note: report to be included in June 25 meeting agenda papers)	May 15	<ul style="list-style-type: none"> <li>• 5 practitioners from practices ranging from SMP to larger firms</li> </ul>

We received five written responses as follows:

- Two SMPs
- One provincial institute
- One large firm
- One public sector