



# Exposure Draft

## Proposed Canadian Standard on Quality Management

# Quality Management at the Firm and Engagement Level, Including Engagement Quality Review

**April 2019**

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**COMMENTS TO THE AASB MUST BE RECEIVED BY  
June 7, 2019**

**COMMENTS TO THE IAASB MUST BE RECEIVED BY  
July 1, 2019**

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**We value your input and look forward to your feedback on this Exposure Draft. Respondents are asked to email their comment letters (in a Word file) to: [info@asbcanada.ca](mailto:info@asbcanada.ca)**

**Please address your comments to:**

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**This Exposure Draft reflects proposals made by the International Auditing and Assurance Standards Board that the Auditing and Assurance Standards Board (AASB) intends to adopt, subject to deliberating comments received, as Canadian generally accepted auditing standards.**

**Individuals and organizations are invited to send written comments on the Exposure Draft proposals. Comments are requested from those who agree with the Exposure Draft as well as from those who do not.**

**Comments are most helpful if they are related to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning. All comments received by the AASB will be available on the website shortly after the comment deadline, unless confidentiality is requested. The request for confidentiality must be stated explicitly within the response.**

## Highlights

The Auditing and Assurance Standards Board (AASB) proposes, subject to comments received following exposure, to adopt with appropriate amendments:

- proposed International Standard on Quality Management (ISQM) (formerly International Standard on Quality Control (ISQC)) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*;
- proposed new ISQM 2, *Engagement Quality Reviews*;
- proposed International Standard on Auditing (ISA) 220, *Quality Management for an Audit of Financial Statements*; and
- related conforming and consequential amendments

issued by the International Auditing and Assurance Standards Board (IAASB). The result would be:

- Canadian Standard on Quality Management (CSQM) (formerly Canadian Standard on Quality Control (CSQC)) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*;
- new CSQM 2, *Engagement Quality Reviews*;
- revised Canadian Auditing Standard (CAS) 220, *Quality Management for an Audit of Financial Statements*; and
- related conforming and consequential amendments.

This Exposure Draft consists of:

- a summary of proposals;
- key public interest considerations;
- a discussion of proposed significant Canadian amendments;
- a discussion of the proposed scope of CSQM 1;
- a discussion of conforming and consequential amendments;
- a link to the IAASB's Exposure Drafts, including its Explanatory Memorandums;
- a description of the AASB's process for adopting ISQMs and ISAs; and
- a proposed effective date.

Please review "**Comments requested**" on page 9 for information on preparing your response to this Exposure Draft.

## Summary of proposals

The IAASB is proposing significant changes to its standards on quality control. The following discussion summarizes key aspects of the IAASB's proposals, as well as the AASB's proposal to adopt the international standards, highlighting issues of specific relevance to Canadian stakeholders. For more details regarding the IAASB's proposals, please refer to the IAASB Exposure Drafts.

## ISQM 1

### Scope

The IAASB Exposure Draft of proposed ISQM 1 deals with a firm's responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements. Proposed ISQM 1 will apply to all firms performing audits or reviews of financial statements, or other assurance or related services engagements, regardless of size or complexity.

The scope of existing CSQC 1, the firm-level quality control standard in Canada, does not apply to related services engagements. The AASB is proposing to adopt ISQM 1 as CSQM 1, which would apply to all standards in the CPA Canada Handbook – Assurance, including those dealing with related services engagements, which are:

- compilation engagements (Section 9200<sup>1</sup>);
- agreed-upon procedures engagements (Sections 9100<sup>2</sup> and 9110<sup>3</sup>); and
- engagements to report on supplementary matters arising from an audit or a review engagement (CSRS 4460<sup>4</sup>).

Expanding the Canadian quality management standards to also include related services engagements will represent a significant change for many smaller firms and sole practitioners that do not currently apply CSQC 1. The AASB's reasons for proposing this change in Canadian practice are set out on page 4.

### Risk-based approach

ISQC 1 sets out the policies and procedures that all firms are required to establish related to quality control. Proposed ISQM 1 requires the firm to apply a risk-based approach in the design, implementation and operation of the system of quality management. It takes into account:

- (a) the nature and circumstances of the firm, including whether it is part of a network or uses service providers or other internal or external factors; and
- (b) the nature and circumstances of the engagements performed by the firm, including the types of engagements performed by the firm and the types of entities for which such engagements are performed.

Accordingly, the complexity and formality of firms' systems of quality management will vary. For example, a firm that performs different types of engagements for a variety of entities, including audits of financial statements of listed entities or entities that are of significant public interest, will likely have a complex and formal system of quality management. On the other hand, a firm that performs only reviews of financial statements or compilation engagements may have a simpler and less formal system of quality management. This is a significant change from ISQC 1.

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<sup>1</sup> COMPILATION ENGAGEMENTS, Section 9200

<sup>2</sup> REPORTS ON THE RESULTS OF APPLYING SPECIFIED AUDITING PROCEDURES TO FINANCIAL INFORMATION OTHER THAN FINANCIAL STATEMENTS, Section 9100

<sup>3</sup> AGREED-UPON PROCEDURES REGARDING INTERNAL CONTROL OVER FINANCIAL REPORTING, Section 9110

<sup>4</sup> Canadian Standard on Related Services (CSRS) 4460, *Reports on Supplementary Matters Arising from an Audit or a Review Engagement*

## **ISQM 2**

As part of a firm's system of quality management, a required response to address a quality risk for certain types of engagements is an engagement quality review. Proposed ISQM 2 is a new standard that deals with:

- the appointment and eligibility of the engagement quality reviewer; and
- the engagement quality reviewer's responsibilities relating to performing and documenting an engagement quality review.

As explained in the IAASB's Exposure Drafts, the IAASB is proposing a separate standard for engagement quality reviews, given the importance and value placed on the role of the engagement quality review by stakeholders, particularly investors and regulators.

Having a separate standard supports scalability. In circumstances when a firm determines that there are no engagements for which an engagement quality review should be performed, there is no need to refer to the requirements of proposed ISQM 2.

Proposed ISQM 2 also more clearly differentiates the responsibilities of the firm and the engagement quality reviewer.

## **ISA 220**

Proposed ISA 220 deals with the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial statements, and the related responsibilities of the engagement partner. It highlights the importance of the public interest role of audits, and emphasizes the importance of the appropriate application of professional judgment and exercise of professional skepticism. Further, it clarifies the roles and responsibilities of the engagement partner. It recognizes the evolving environment, including changes to audit delivery models and the use of audit technology.

Proposed ISA 220 is meant to be scalable for firms of different sizes and for engagements where the nature and circumstances differ. To this end, the IAASB has included several application material paragraphs that highlight how proposed ISA 220 can be applied in differing circumstances.

## **Key public interest considerations**

All the proposals in the IAASB's Exposure Drafts are made with public interest considerations at the forefront. The IAASB's Exposure Drafts set out the public interest considerations that influenced its revisions.

In addition, the AASB recognized Canadian-specific public interest considerations, including:

- the need for a system of quality management that is proportional and scalable to firms of different natures and sizes;
- the demand for assurance engagements other than audits or reviews of historical financial statements, as well as the introduction of new standards for assurance engagements since CSQC 1 was developed;
- the demand for related services engagements;
- the reliance on related services engagement reports by third-party users; and
- the need for consistent performance of high-quality related services engagements in Canada, resulting in improvements in quality.

## Proposed significant Canadian amendments

Subject to input from Canadian stakeholders, the AASB proposes to make the following Canadian amendment:

- References in ISQM 1, ISQM 2 and ISA 220 to relevant ethical requirements that “ordinarily comprise the International Ethics Standards Board for Accountants’ *International Code of Professional Ethics for Professional Accountants (Including International Independence Standards)* (IESBA Code) together with national requirements that are more restrictive” are replaced by “comprise the relevant independence and other ethical requirements set out in the rules of professional conduct / code of ethics applicable to the practice of public accounting issued by various professional accounting bodies.” Amendments would be made to the following paragraphs:

ISQM 1.19(s), A2, A9, A16, A67, A74, A82, A86 and A171;

ISQM 2.11(c); and

ISA 220.10(k) and A21.

## Proposed scope of CSQM 1

As previously noted, the AASB is proposing to adopt ISQM 1 as CSQM 1 with only the Canadian amendment noted above. The Board believes that it is appropriate to adopt proposed ISQM 1 with no amendments to the scope, such that related services engagements in the Handbook would now be covered by the system of quality management. The Board is proposing to expand the scope of CSQC 1 for the following reasons:

- It is in the public interest that practitioners consistently perform high-quality engagements. A system of quality management will support the consistent performance of high-quality engagements.
- Related services engagements are being conducted for a broader range of external users. They are relevant and sought-after services. As a result, there is an increased need for quality management standards to drive the consistent performance of high-quality engagements.
- Proposed ISQM 1 is designed to accommodate different firms, engagements and subject matters now and in the future. It is intended to be proportionate to the nature of the firm and the engagements it undertakes, while requiring a base level of quality management. As a result, the standard will facilitate the application of systems of quality management to smaller firms, including firms that only conduct related services engagements.

The AASB recognizes that implementing proposed ISQM 1 may require effort, particularly for those practitioners who currently are not required to have a system of quality control under CSQC 1. The Board will work to identify implementation challenges and support the development of non-authoritative guidance and tools to assist practitioners with their implementation.

## Consistent high-quality engagements

As noted above, the consistent performance of high-quality engagements is in the public interest. Adopting proposed ISQM 1 provides Canadian firms with a new approach to quality management to enable them to provide consistent high-quality services across all types of engagements, including related services engagements.

The AASB issues new and revised engagement-level standards regularly. However, such standards address only issues at the engagement level. They do not address the consistency of their application at the firm level, nor all the considerations that a firm needs to address to achieve quality objectives.

Proposed ISQM 1 addresses issues related specifically to quality at the firm level. For example, a firm-level system of quality management will require engagement partners to consider the risks around accepting and performing such engagements and whether the proper resources are available and assigned to the engagement.

A firm-level system of quality management will also require the firm to consider quality risks related to each of the components of the system of quality management, as set out in ISQM 1, including:

- governance and leadership, including whether the firm's culture promotes a commitment to quality;
- ethical requirements, including whether staff have met all relevant ethical requirements;
- engagement performance, including whether the firm has appropriate policies that address the direction, supervision and review of the engagement team's work, and whether these policies are followed on engagements;
- resources, including whether the firm hires, develops and retains personnel with the competence and capabilities to consistently perform high-quality engagements;
- whether the firm communicates relevant and reliable information, both inside and outside the firm; and
- whether the results from engagement inspections and other monitoring activities are evaluated and addressed so that quality may be improved.

Addressing such risks at the firm level can help to ensure that standards are applied with consistent high quality across engagements.

### ***Related services engagements***

As previously noted, related services engagements in the Handbook that would be subject to proposed CSQM 1 are:

- compilation engagements (Section 9200);
- agreed-upon procedures engagements (Sections 9100 and 9110); and
- engagements to report on supplementary matters arising from an audit or a review engagement (CSRS 4460).

When the AASB issued CSQC 1 in 2008, it retained the scope of the quality control standard it replaced, such that it applies to audits and reviews of financial statements and other assurance engagements. In contrast, ISQC 1 applies to audits and reviews of financial statements and other assurance and related services engagements.

The AASB believes the landscape of the Canadian environment has significantly evolved since CSQC 1 was issued. The concepts of quality management are more broadly understood. Further, related services engagements are frequently requested. Key factors to note with regard to related services standards in Canada include the following:

- Compilation engagement reports are being distributed by management to third-party users, including lenders. The AASB took a step to address this expanded use by issuing an [Exposure Draft](#) in September 2018 of a revised standard on compilation engagements.
- The demand for agreed-upon procedures engagements is strong. In response to stakeholder demands, the Board issued an [Exposure Draft](#) in December 2018 of an updated standard that would replace Sections 9100 and 9110.



- There has also been an increase in recent years of third parties, such as regulators, placing responsibility on the practitioner to report on matters beyond the scope of the audit or review of an entity's financial statements. To respond to this increasing demand, the AASB issued CSRS 4460 in 2014.

### ***Scalability and proportionality***

As previously noted, proposed ISQM 1 has been revised to a risk-based approach with requirements that can be tailored to the nature and circumstances of the firm and the engagements it performs. Rather than requiring all firms to establish similar policies and procedures to address quality, which is the approach under CSQC 1, proposed ISQM 1 requires firms to consider the circumstances of the firm and the engagements it performs in setting out quality objectives, identifying risks to achieving those objectives and establishing responses to those risks.

A firm that performs different types of engagements for a wide variety of entities, including audits of financial statements of listed entities or entities that are of significant public interest, will likely need to have a more complex and formal system of quality management than a firm that performs only reviews of financial statements or compilation engagements. Further, although the firm is responsible for establishing its system of quality management, aspects of the system of quality management may be implemented at the engagement level, as illustrated in proposed ISQM 1.<sup>5</sup> To demonstrate how the requirements may be adapted to firms of differing natures and sizes, proposed ISQM 1 includes Application and Other Explanatory Material to explain how the requirements may be practically applied depending on the nature of the firm and the engagements it performs.

Proposed ISQM 1 emphasizes that the firm is required to comply with each requirement of the ISQM unless the requirement is not relevant to the firm because of the nature and circumstances of the firm or its engagements.<sup>6</sup> Application material sets out the following examples of when a requirement may not be relevant to a firm or to the engagements it performs:

- When the firm is a sole practitioner. For example, the requirements addressing the organizational structure and assigning roles, responsibilities and authority within the firm, appropriate direction, supervision and review and addressing differences of opinion may not be relevant.
- When the firm only performs engagements that are related services engagements. For example, if the firm is not required to maintain independence for the related services engagements, the requirement to obtain a documented confirmation of compliance with independence requirements from all personnel would not be relevant.<sup>7</sup>

Further discussion of examples related to the governance and leadership component and the monitoring and remediation process component of a firm's system of quality management are included below.

During limited pre-exposure draft consultations with practitioners from small and medium-sized practices (SMPs) and sole practitioners, the AASB heard that there are two specific components of the system of quality management that may present challenges. The following discussion highlights some of the material in proposed ISQM 1 aimed at helping practitioners understand and apply the requirements in these components.

**Governance and leadership** – Governance and leadership is an important component of a system of quality management and, therefore, must be addressed by every firm. Proposed ISQM 1 includes specific requirements, such as assigning various responsibilities under the system of quality management to different individuals.<sup>8</sup> Proposed ISQM 1 recognizes that there may be one single managing

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<sup>5</sup> Proposed ISQM 1, paragraph A62

<sup>6</sup> Proposed ISQM 1, paragraph 21

<sup>7</sup> Proposed ISQM 1, paragraph A20

<sup>8</sup> Proposed ISQM 1, paragraph 24(a)



partner with sole responsibility for oversight of the firm, while larger firms may have multiple levels of leadership.<sup>9</sup> Ordinarily, the person with ultimate responsibility and accountability for the system of quality management is the chief executive officer (or equivalent), or the firm's managing partner in the case of a smaller firm.<sup>10</sup>

Proposed ISQM 1 states that governance and leadership involves the firm's culture, decision-making process, actions, organizational structure and leadership. The nature and extent of actions of the individual with ultimate responsibility and accountability for the system of quality management will be more formally communicated in a larger firm. In a smaller firm, such actions may be demonstrated through direct interaction with other personnel.<sup>11</sup>

**Monitoring and remediation process** – For a system of quality management to be effective in managing quality risk, it needs to be reviewed on a regular basis to ensure it is appropriately designed, implemented and operated. Further, any deficiencies the review identifies need to be addressed. Proposed ISQM 1 contains several requirements related to monitoring the firm's system of quality management and addressing deficiencies identified.

Proposed ISQM 1 includes a requirement to inspect completed engagements on a cyclical basis determined by the firm to determine whether the responses that are required to be implemented at the engagement level have been implemented.<sup>12</sup> The firm may establish different cyclical periods according to the categories of engagements performed, based on quality risks identified. For example, the firm may determine the inspection cycle to be every three years for an engagement partner performing audits of financial statements, whereas a longer period may be appropriate for engagement partners performing only compilation engagements. Alternately, the cycle of the inspection may be based on a factor other than time, such as the number of engagements performed.<sup>13</sup>

CSQC 1 includes a requirement for a monitoring process, including the inspection of completed engagements. Like proposed ISQM 1, CSQC 1 prohibits a member of the engagement team or the engagement quality reviewer from performing these inspections. This recognizes that there is a self-review threat if a member of the engagement team or engagement quality reviewer is involved. Practitioners applying CSQC 1 have applied these requirements in practice. Accordingly, lessons from this experience will be helpful as the scope of the standard is expanded to include related services engagements.

To assist stakeholders in understanding ISQM 1, and to demonstrate how proposed ISQM 1 can be applied in a scalable manner in smaller firms, the IAASB included the following documents with its Exposure Drafts:

- [Draft Frequently Asked Questions Regarding Proposed ISQM 1](#); and
- [Draft Examples: How the Nature and Circumstances of the Firm and the Engagements It Performs Affect the Implementation of Proposed ISQM 1](#).

## Conforming and consequential amendments

### *Proposed conforming amendments in the IAASB Exposure Drafts*

In its Exposure Drafts, the IAASB proposes conforming amendments to its *Preface to the International Quality Management, Audit, Review, Other Assurance, and Related Services Pronouncements*, several

<sup>9</sup> Proposed ISQM 1, paragraph A32

<sup>10</sup> Proposed ISQM 1, paragraph A36

<sup>11</sup> Proposed ISQM 1, paragraph A28

<sup>12</sup> Proposed ISQM 1, paragraph 45(b)

<sup>13</sup> Proposed ISQM 1, paragraph A169

ISAs and International Auditing Practice Note (IAPN) 1000, *Special Considerations in Auditing Financial Instruments*. The AASB would adopt the conforming amendments to the ISAs and IAPN 1000, and make similar amendments, where appropriate, to the *Preface to the CPA Canada Handbook – Assurance*.

### **Subsequent exposure of further conforming and consequential amendments**

The IAASB will propose conforming and consequential amendments to its review, other assurance and related services pronouncements at a later date. To the extent that the AASB has adopted international standards (e.g., CSAE 3000<sup>14</sup> and CSAE 3410<sup>15</sup>), it would need to consider whether to adopt the same conforming amendments. For review and other assurance standards, that the Board did not adopt from international standards, it would consider whether to propose conforming amendments at the same time.

Further, since the AASB is proposing to expand the scope of CSQM 1 to include related services engagements, it would also be necessary to propose consequential amendments to those standards to add engagement-level quality management requirements. The Board has not proposed revisions to those standards in this Exposure Draft because two of the standards (i.e., those addressing compilation engagements and agreed-upon procedures engagements) are currently being revised. Rather, the Board believes it would be appropriate to propose revisions only when those standards have been finalized. It expects that will coincide with the timing of the subsequent exposure of further conforming and consequential amendments. However, exact timing will depend on the progress of these projects, as well as the timing of the IAASB's subsequent exposure of further conforming and consequential amendments.

## **IAASB Exposure Drafts**

The IAASB's Exposure Drafts are available on its website, and consist of the following:

- [Overall Explanatory Memorandum](#), The IAASB's Exposure Drafts for Quality Management at the Firm and Engagement Level, Including Engagement Quality Reviews;
- [Proposed International Standard on Quality Management 1](#), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements (previously ISQC 1)*;
- [Proposed International Standard on Quality Management 2](#), *Engagement Quality Reviews*; and
- [Proposed International Standard on Auditing 220 \(Revised\)](#), *Quality Management for an Audit of Financial Statements*.

In addition to the text of the proposed standards, the Exposure Drafts include an Explanatory Memorandum, which provides background to, and an explanation for, the proposed revisions.

## **Process for adopting ISQMs and ISAs**

In adopting the ISQMs as CSQMs and the ISAs as CASs, the AASB issues as a Canadian exposure draft, every IAASB exposure draft of a proposed ISQM and ISA. However, in doing so, the Board recognizes that it has a vital role to play in monitoring changes the IAASB makes to ensure that standards remain in the Canadian public interest and that adopting an ISQM or ISA is not automatic. The Board follows amendment criteria set out in the [Appendix](#) that allow it to make amendments in specific circumstances.

<sup>14</sup> CSAE 3000, *Attestation Engagements Other than Audits or Reviews of Historical Financial Information*

<sup>15</sup> CSAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

The AASB normally uses the same effective date for the CSQMs and CASs as the IAASB does for the ISQMs and ISAs. The Board makes CSQMs and CASs available shortly after they are approved, so Canadian practitioners can become familiar with them and prepare to implement them by the effective date.

## **Proposed effective date**

The IAASB proposes an implementation period of approximately 18 months following the Public Interest Oversight Board's approval of the standards. The CSQMs and CAS are expected to have the same implementation period as the ISQMs and ISA. Firms will be permitted to apply the CSQMs and CAS before the effective date.

## **Comments requested**

Comments are most helpful if they relate to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Drafts should clearly explain the problem and include a suggested alternative, supported by specific reasoning. When a respondent agrees with proposals in the Exposure Drafts, it will be helpful for the AASB to be made aware of this view.

## ***Responding to the IAASB's Exposure Drafts***

The AASB encourages Canadian stakeholders to respond to the IAASB on its Exposure Drafts. Specific questions on which the IAASB would like input are provided in the "Request for Comments" section of the IAASB Exposure Drafts. The AASB requests that comment letters be sent directly to the IAASB with a copy to the AASB. The Board will consider such copies received by June 7, 2019, in drafting its own response to the IAASB Exposure Drafts. Respondents are asked not to include comments on matters particular to the Canadian environment in their responses to the IAASB. Such comments should be included only in responses sent to the AASB.

## ***Providing comments to the AASB***

The AASB's experience is that field testing proposed requirements often can identify areas where the proposals create practical challenges. Should you decide to field test the requirements in the Exposure Drafts, we would appreciate learning about the results in your response letter. Lessons learned from field testing will provide the Board with a better understanding of the proposals' practical implications.

The AASB would appreciate receiving responses to the questions set out below, in addition to receiving a copy of the response to the IAASB's Exposure Drafts.

1. Do you agree with the proposed Canadian amendment?
2. Do you believe the AASB should make any additional Canadian amendments? If so, please include your reasoning and describe their nature and extent. Any proposed amendments would need to meet the criteria set out in the Appendix.
3. Recognizing the proposals are intended to apply to a wide variety of circumstances, do you believe that examples in how the proposals apply to SMPs are appropriate? If not, why not?
4. Are there any circumstances (i.e., types of engagements) where the risk to quality would be considered too low to require a system of quality management? Alternately, are you aware of circumstances where some of the components of the system of quality management would not apply? If so, please explain the circumstances and which components you believe would not apply.
5. Do you believe any of the proposals could create implementation challenges? If so, please explain why, and where additional implementation guidance may be needed.

Responses to these additional questions should be sent directly to the AASB.

You may email your comments (in a Word file) to: [info@aaibcanada.ca](mailto:info@aaibcanada.ca)

The deadline for responding to the AASB on its Exposure Draft is June 7, 2019. The deadline for responding to the IAASB on its Exposure Drafts is July 1, 2019.

## Appendix

### Criteria for amending ISQMs and ISAs when adopting them as CSQMs and CASs

With respect to the adoption of ISQMs and ISAs, the AASB's overriding goal is to adopt ISQMs and ISAs into the CPA Canada Handbook – Assurance without amendment. However, there may be circumstances when amendments are required. The following sets out the limited circumstances when the AASB will make amendments to ISQMs and ISAs:

1. The AASB limits additions to an ISQM or an ISA to those required to comply with Canadian legal and regulatory requirements.<sup>1</sup>
2. The AASB limits deletions from, or other amendments to, an ISQM or an ISA to the following:
  - (a) The elimination of options (alternatives) provided for in the ISQM or ISA.
  - (b) Requirements or guidance, the application of which Canadian law or regulation<sup>1</sup> does not permit, or which require amendments to be consistent with law or regulation.
  - (c) Requirements or guidance, where the ISQM or ISA recognizes that different practices may apply in different jurisdictions and Canada is such a jurisdiction.
3. The AASB may make amendments to an ISQM or an ISA with respect to requirements or guidance that do not fall within 1 or 2 above when it believes that there are circumstances particular to the Canadian environment where such amendments are required to serve the Canadian public interest and maintain the quality of auditing and reporting in Canada.
4. To the extent possible, amendments that are:
  - (a) additions to an ISQM or an ISA will not be inconsistent with the current requirements or guidance in the ISA; and
  - (b) deletions from, or other amendments to, an ISQM or an ISA will be replaced by an appropriate alternative that achieves the objective of the deleted requirement.

Proposed amendments to an ISQM or an ISA are highlighted in exposure drafts of proposed Canadian standards. The AASB indicates the reasoning for the amendments and respondents are invited to comment on them, including when the amendment will not result in convergence with the ISQM or ISA in accordance with the IAASB's guide for national standard setters. Amendments to ISQMs and ISAs are separately identified in the final Handbook material.

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<sup>1</sup> Canadian incorporating and other governing legislation often require entities to prepare financial statements in accordance with Canadian generally accepted accounting principles (GAAP). Accordingly, if Canadian GAAP necessitates a different audit response in Canada, these differences fall within the definition of a legal or regulatory requirement.

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