

|  | Canadian Standard on Quality Control (CSQC 1) Requirements   |  |   | 2 <sup>nd</sup> Partner Review<br>(optional financial statement review)  |
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|  | Engagement Quality Control Review (EQCR)   | Monitoring   |   |  |
|  |  | Annual (Ongoing)   | Cyclical (Completed File)   |  |
| <b>Purpose of the review</b>                           | Provides for an objective evaluation of the engagement prior to the issuance of the report.  | Evaluation of the design and implementation of the policies and procedures in place to determine whether the quality control system is adequate and operating effectively.   | Inspection of sample completed engagement files focusing on adherence to professional standards and applicable legal and regulatory requirements.   | Quality control measure put in place by the firm at its discretion, usually restricted to high-level review of financial statements and general consultation.  |
| <b>Engagements affected by the review requirements</b> | All audits of listed entities and any engagements assessed as requiring an EQCR under the criteria established by the firm as documented in its quality control manual.  | Each year a sample of engagement files would be selected for monitoring activities.  | One engagement file per engagement type per partner (or partner equivalent).  | No CPA Canada Handbook requirement for 2 <sup>nd</sup> partner reviews; performed as part of firms' own risk management policies.  |
| <b>Timing of review or monitoring</b>                  | Final review to be completed <u>prior</u> to the engagement report date with reviewer involved at the engagement planning stage and throughout the engagement if necessary.  | To be performed annually at a date selected by the firm.   | Periodic inspection is required, generally implemented as a three-year cycle.   | Typically completed prior to statement release.  |
| <b>Individual qualified to perform the review</b>      | Individual with sufficient technical expertise, experience, and authority who is <u>independent</u> from the engagement team and performs an objective second review of the financial statements and work performed.<br><br>In a small firm, this role could be contracted out to an external party. | Individual with sufficient and appropriate experience and authority in the firm to assume responsibility for the firm's quality control processes.<br><br>This individual is not required to be independent of the quality control processes or the engagement files selected for monitoring purposes. | Individual with sufficient and appropriate experience and authority in the firm to assume responsibility for the firm's quality control processes.<br><br>This individual is required to be <u>independent</u> of the engagement and, as such, cannot be a member of the engagement team or the EQCR. | Firm-specific policies would be followed as there is no formal requirement for a second partner review, unless consultation under CSQC1 is required on a difficult or contentious issue.<br><br>Generally, these reviews are performed in-house by a partner, senior manager, or quality control staff member. |

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|  |  | In a small firm, this role could be contracted out to an external party.<br><br><b>Note that practice inspection does not constitute a substitute for the firm's requirement for ongoing monitoring.</b>       | In a small firm environment, this role could be contracted out to an external party.<br><br><b>Note that practice inspection does not constitute a periodic inspection of completed assurance engagements.</b>   |   |
| <b>Can the review or monitoring be completed by the firm internally?</b> | Yes, if there are at least two partners (or partner equivalents) in the firm with sufficient expertise and authority to act as the lead engagement partner.<br><br>For example, a tax partner in a two-partner firm might not have sufficient assurance expertise to perform an EQCR on an audit engagement. | Yes.   | Yes, if there are at least two partners (or partner equivalents) in the firm with sufficient expertise and authority to act as the lead engagement partner.<br><br>For example, a tax partner in a two-partner firm might not have sufficient assurance expertise to perform cyclical file monitoring on an audit engagement, or a senior staff member might not have the authority to perform this function as the partner can override or ignore the monitoring results. | Yes.<br><br>The firm may also consult with individuals outside the firm who have specialized expertise if considered necessary. |
| <b>Considerations specific to sole practitioners</b>                     | An external public practitioner would need to be engaged to perform the EQCR. This individual is required to be registered and licensed in public practice.  | A sole practitioner can complete the annual monitoring as this function is essentially a self-assessment of whether the firm's quality control policies and procedures have been followed throughout the year. | A sole practitioner must engage an external consultant to perform cyclical monitoring. These arrangements might include an exchange of services between two firms.   | Consider whether there is value in having a senior manager or quality control staff member perform a high-level second review.  |
| <b>Required documentation</b>  | The EQCR is required to be conducted in a timely manner  | The firm is required to document the procedures  | The firm is required to document the cyclical  | Second partner review is not a requirement under  |

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| <p><b>and communication</b></p>             | <p>at appropriate stages during the engagement and must be completed prior to the date of the engagement report.</p> <p>The stages for which the EQCR is required to be involved will depend on the size and complexity of the engagement.</p> <p>All review work performed by the EQCR, including issues noted and resolutions made, should be included in the file documentation. The date the EQCR work was performed is required.</p> | <p>performed, the results of the monitoring as well as any follow-up or changes made to the quality control system to address identified issues.</p> <p>Additionally, the firm is required to communicate at least annually the results of the monitoring and recommendations to relevant engagement partners and other appropriate personnel.</p> | <p>monitoring activities completed and the results of the monitoring. The individual file deficiencies should be communicated to the engagement partner and, if appropriate, other engagement team members.</p> <p>A summary of the overall deficiencies noted, grouped as systemic, repetitive, or significant deficiencies, as well as the recommendations for remedial action should be documented and communicated to relevant engagement partners and other appropriate personnel.</p> | <p>any particular standard. Firm should consider documenting issues identified and resolutions recommended as part of a file consultation.</p>   |
| <p><b>Technical Handbook references</b></p> | <p>CSQC 1 paragraphs .35 - .44, A41 – A52; CAS 220</p>  | <p>CSQC 1 paragraphs .48 - .54, A64 – A69</p>  | <p>CSQC 1 paragraphs .48 - .54, A64 – A69</p>   | <p>Not required as part of CSQC 1. Paragraphs .34 and A36 – A40 if performing a CSQC 1 consultation.</p>   |
| <p><b>Practice tips</b></p>                 | <p>The firm should carefully consider its criteria for determining when an EQCR is required. The purpose of the quality control policies and procedures is to ensure that the firm complies with all professional standards, legal and regulatory requirements, and that reports issued by the firm are appropriate in the circumstances.</p>   | <p>Set a time each year to complete the annual monitoring.</p> <p>Document and retain the work performed and the deficiencies noted.</p> <p>Ensure there is a plan to remedy the deficiencies noted and a system put in place to mitigate reoccurrence.</p>  | <p>There is little value in completing the cyclical monitoring in the same period, or shortly before or after, the provincial practice inspection. Set a cycle in which this will not occur.</p> <p>Consider performing all, or a few, of the required cyclical file reviews each year. For example, if there are three partners in the firm, create a cycle where one partner per</p>  | <p>It is possible to turn a high-level second partner review into an EQCR, but this would need to be performed at the beginning of the engagement.</p> <p>The main changes required are ensuring involvement at the appropriate stage (such as planning and completion), reviewing</p> |

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|  | <p>Examples of when an EQCR would be appropriate might include:</p> <ul style="list-style-type: none"> <li>• engagements completed by all new partners / senior staff for a set period to ensure firm standards are being met;</li> <li>• engagements where exposure is significant (consideration of firm's insurance coverage limits);</li> <li>• engagements conducted in sensitive legislative/regulatory environments; or</li> <li>• engagements with a high degree of public exposure.</li> </ul> <p>Create a risk assessment map (tailored to your firm and its environment) and the EQCR criteria in the firm's quality control manual to include the parameters of when an EQCR would be required.</p> | <p>Monitor standards changes and regulatory changes (ethics, rules of conduct, bylaws) each year during the annual monitoring.</p> | <p>year is reviewed, or perhaps one type of engagement is reviewed each year. This will help keep your files and templates updated for any standards changes during that year.</p> <p>If you engage a firm/individual to provide you with cyclical monitoring services, ensure they are technically proficient enough to provide you with quality services. If you exchange services with another firm, agree in advance to the breadth and depth of services you will provide each other.</p> | <p>key matters in the file documentation, and making sure documentation of the work performed is maintained on file.</p> |
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