

Canadian Public Accountability Board (CPAB)

Quality Control Report (QCR)

The purpose of the QCR is to obtain information about the quality controls in place, or planned in the immediate future, for all firms intending to be participants in CPAB's Oversight Program. To assist firms in organizing their responses, CPAB has developed a form organized around the major elements of quality control. For each sub-element of quality control, firms should submit a narrative, summary description in clear and concise language, of their relevant policies and practices. The last sub-element in each element is a dialogue box that allows firms to provide any additional information or commentary they believe would assist CPAB in evaluating their responses for that element.

Quality controls apply to all auditing firms, including those with only two or three partners and few other professional staff, or no other professional staff at all, and to sole practitioners, with or without other professional staff. CPAB recognizes that the nature of policies and procedures may differ in such firms, and documentation may be less formal. However, the basic principles of quality control and independence apply to all firms that intend to participate in audits of reporting issuers. For some elements, additional guidance is provided for sole practitioners and very small firms. If any firm believes that an element is not applicable to it, it should explain its reasoning in the space provided for the response.

The elements and sub-elements of quality control to be addressed are as follows:

1. Leadership and responsibilities within the firm

- Promotion of an internal culture of audit quality and provision of related practical guidance (including coverage in professional development programs).
- Development, documentation and implementation of quality control policies and procedures.
- Communication of the policies and procedures to all relevant personnel (indicate scope and frequency of communications).
- Positive recognition of compliance, and processes to address non-compliance (e.g., through performance appraisal, compensation and advancement).
- Clearly established responsibilities of the CEO (or equivalent) and other senior personnel, and appropriate qualifications and experience of those to whom responsibilities for quality controls and performance are delegated.
- A formal code of conduct.
- A process that encourages personnel to discuss with firm management their concerns about inappropriate conduct by the firm or its employees, including the provision of a means of bringing such matters to the firm's attention (on a confidential basis if desired) with a guarantee of no reprisals for so doing.
- Additional comments

NOTE: The "Additional comments" Sub-Element may be used by sole practitioners to provide a narrative description of their approach to ensuring the quality of their work and imparting their approach to any employees.

2. Ethical requirements – general

- Methods and processes for establishing, promoting, and monitoring ethical conduct among all personnel, with reference to integrity, objectivity (independence is dealt with below), professional competence and due care, confidentiality, and professional behaviour.
- Additional comments

3. Ethical requirements – independence

- Processes in place to evaluate the appropriateness of undertaking non-assurance services for audit clients.
- Communication to, and education of, partners and professional staff, including non-audit personnel, to ensure they understand the independence policies that relate to their activities.
- Maintenance of adequate records to identify, communicate, and monitor compliance with, specific independence requirements (e.g., prohibited investment lists).
- Requirements for personnel to provide the firm with relevant information about client engagements and to notify the firm of any identified threats and breaches of compliance of which they become aware.
- Periodic confirmation of compliance by all personnel required to be independent.
- Partner rotation
- Policies concerning fees and pricing (cover fees that constitute a significant proportion of the firm's fees, overdue fees and pricing in proposals.)
- Factors, including negative factors, used to determine partner compensation and advancement, with commentary on relative weighting of factors.
- Policies when there is actual or threatened litigation between the firm and an audit client.
- Monitoring of compliance with independence requirements.
- Policies and practices when independence is determined to be impaired.
- Indicate whether the specific prohibitions in the Rules of Professional Conduct that relate to listed entities are applied to all audits of reporting issuers, or only to reporting issuers that exceed the size threshold in the Rules for listed entities (i.e., either market capitalization or total assets equal to or greater than \$10,000,000)
- **NOTE: this sub-element does not apply to foreign firms**
- Additional comments

4. Acceptance and continuance of client relationships and specific engagements

- Identification of potential sources of risk associated with the client relationship or specific engagement.
- Validation of integrity and reputation of the client or potential client, including members of management and those charged with governance.
- Competence of the firm or practitioner to perform the engagement and availability of resources to do so.
- Ability to meet the independence requirements.
- Continuance assessed annually or based on a specified risk profile.
- Additional comments

5. Human resources - general

- Recruitment (integrity and competence of potential hires).
- Development of competencies of personnel:
 - Career development and coaching.

- Professional Development (see below).
- Performance evaluation (including compensation and advancement) related to audit quality.
- Assignment to engagement teams of practitioners with the necessary competence and availability.
- Maintenance of personnel files that record career development, competencies, professional development courses taken, qualifications obtained, work experience (including industry expertise) and performance appraisals.
- Additional comments

NOTE: Sole practitioners should focus on their means of keeping up-to-date with professional developments and regulatory requirements and with information necessary to adequately audit their reporting issuer clients. If the practitioner has no employees this section is not applicable.

6. Human resources – Professional development, education and training

- Coverage of all necessary skills for the performance of audits, including ethical standards and industry expertise.
- Regular assessment of professional development needs and assignment of personnel to courses accordingly.
- Evaluation of participants and of instructors.
- Maintenance of attendance records.
- Follow-up and consequences of non-attendance.
- Professional development record for each partner and employee, including evaluations.
- Additional comments

NOTE: Sole practitioners should focus on their means of keeping up-to-date with professional developments and regulatory requirements and with information necessary to adequately audit their reporting issuer clients. If the practitioner has no employees this section is not applicable.

7. Engagement performance

- Up-to-date manuals and/or software tools to cover GAAP, GAAS, regulatory requirements, and foreign standards when applicable.
- Supervision during the engagement.
- Review of all work by more experienced or qualified personnel, including the engagement partner.
- Required and voluntary consultations, including general policy encouraging consultation.
- Documentation of consultations and requirements that the outcomes be implemented.
- Process for resolving differences of opinion within the audit team, with those consulted and with the engagement quality control reviewer.
- Additional comments

NOTE: Very small firms and sole practitioners may use the "Additional comments" Sub-Element to describe any processes in place for consulting with other professionals or firms.

8. Engagement quality control review (prior to issue of auditor's report)

- Criteria for engagements requiring second (concurring) independent partner review and required qualifications for the reviewers.

- Policies concerning scope of the second partner review (GAAP, GAAS, regulatory requirements and, if applicable, foreign reporting requirements).
- Technical department reviews.
- Documentation of the review process and of actual reviews.
- Additional comments

9. Monitoring (after issue of auditor's report)

- Policies and process for review of compliance with quality controls (refer to qualifications of, training for, and independence of monitors, and frequency of monitoring for audits of reporting issuers.)
- Disposition and documentation of results, and consequences of failures.
- Follow-up of internal and external complaints.
- Additional comments

10. Documentation

- Documentation policies for audit engagements, including file retention, security and back-up. (Indicate whether, or to what extent, files are maintained in electronic or hard copy format).
- Documentation responsibilities in technical departments of required and voluntary consultations.
- Documentation of policies, methodologies and firm communications (Newsletters, general communications to partners and other professional groups such as professional staff, managers or principals, office or business managing partners, etc.)
- Policies when there is a threat of litigation or regulatory or disciplinary action, or when files are subpoenaed.
- Additional comments