

Quality Management

I. Objective of Agenda Item

To discuss and vote to expose for public comment a draft of the proposed SSARS, *Quality Management for an Engagement Performed in Accordance with Statement on Standards for Accounting and Review Services*.

II. Background

In February 2021, the Auditing Standards Board (ASB) exposed for public comment proposed Statements on Quality Management Standards (SQMS) – *Quality Management: A Firm's System of Quality Management*, and *Engagement Quality Reviews* and proposed Statement on Auditing Standards, *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*. Hereinafter, collectively, the standards are referred to as the “Quality Management standards.”

The development of these proposed standards has been influenced by concerns about audit quality, as indicated by the results of peer reviews and studies by regulators. Further, the development of these proposed standards was influenced by the ASB’s view that it is particularly important to converge with the quality management standards of the IAASB, which were updated and issued in December 2020.¹

The ASB exposure draft is available at:

<https://www.aicpa.org/content/dam/aicpa/research/exposedrafts/accountingandauditing/downloadabledocuments/20210204a/20210204a-quality-mgmt-ed.pdf>.

If issued as final, the proposed SQMS, *A Firm's System of Quality Management* will supersede Statement on Quality Control Standards No. 8, *A Firm's System of Quality Control* (QC section 10). As AR-C section 60, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services* and AR-C section 90, *Review of Financial Statements* refer to QC section 10 and also, as certain concepts should be consistent between the auditing standards and the SSARSs, certain revisions are necessary to AR-C sections 60 and 90.

As the need for consistency between the standards for audits and reviews is also relevant in the international literature, in February 2021, the IAASB exposed for public comment a document entitled “Conforming and Consequential Amendments to the IAASB’s Other Standards as a Result of the New and Revised Quality Management Standards.” The comment end date on that exposure draft was May 24, 2021. The document includes proposed conforming amendments to International Standard on Review Engagements 2400 (Revised), *Engagements to Review Historical Financial Statements*. The IAASB proposes that the amendments be effective as of the same date of the quality management standards – of financial statements for periods beginning on or after December 15, 2022. The exposure draft is available at <https://www.ifac.org/system/files/publications/files/IAASB-Conforming-Amendments-Quality-Management.pdf>.

¹ In December 2020, International Auditing and Assurance Standards Board (IAASB) issued the following standards:

- International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (ISQM 1);
- ISQM 2, *Engagement Quality Reviews* (ISQM 2); and
- International Standard on Auditing (ISA) 220 (Revised), *Quality for an Audit of Financial Statements* (ISA 220 (Revised)).

Those standards are available at <https://www.iaasb.org/focus-areas/quality-management>.

III. ASB Consideration of Comment Letters on the Exposure Draft

The comment end date on the ASB proposed Quality Management standards was August 31, 2021. In addition, during the exposure period, the ASB's Quality Standards Task Force² held 15 roundtables with a total of 424 participants, excluding task force members and AICPA staff. The roundtables were publicized by state societies and included practitioners from firms of all sizes. Many participants were also peer reviewers.

171 comment letters were received on the exposure draft of the proposed standards.³ While the comments received on the exposure draft addressed all aspects of the standards, significant concerns focused on the proposals related to the proposed prohibition on self-inspection and the proposed two-year cooling-off period for engagement quality reviewers.

The ASB discussed the following issues at its meeting October 12-14, 2021:

- Self-inspection
- Cooling-off period
- Effective date
- Dating of the report when engagement quality review is performed

As this discussion paper was prepared prior to the ASB meeting, a summary of the results of the ASB discussion is not provided in advance of the ARSC meeting. A verbal update will be provided to the ARSC during the meeting. The ASB will discuss other comments received on the proposed Quality Management standards at future ASB meetings.

IV. Discussion with the ARSC

Mr. Glynn will use agenda item 2A to walk the ARSC through the proposed amendments to AR-C sections 60 and 90.

The revisions to AR-C sections 60 and 90, excluding the proposed revision to paragraph .16 of AR-C section 90 on page 8 of agenda item 2A, are intended to eliminate any potential inconsistencies between SSARs and the proposed SAS, *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*. Based on the comment letters received on the ASB's proposed quality management standards, it is not expected that the ASB will propose changes to the proposed SAS that would substantively change the proposed amendments to the SSARs. An extract of comment letters relating to the proposed SAS is included as agenda item 2D.

The proposed revision to paragraph .16 of AR-C section 90 is intended to eliminate an inconsistency between the requirement for a review performed in accordance with SSARs and other engagements (preparation, compilation, audit, and attestation engagements).

At its meeting in May 2021, the ARSC agreed that the disclosure of management's responsibility related to going concern should be required in the accountant's review report. Such proposed revision is not included in the draft presented as agenda item 2A as, subsequently, several ARSC members have indicated that they believe that it is not in the public interest to further revise the reporting requirements

² ARSC member Mike Westervelt is a member of the ASB's Quality Standards Task Force.

³ The comment letters on the proposed Quality Management standards are available at <https://www.aicpa.org/research/exposedrafts/accountingandauditing/comment-letters-on-proposed-quality-management-standards.html>

for review engagements in such close proximity to the issuance of SSARS 25, *Materiality in a Review of Financial Statements and Adverse Conclusions* in February 2020.

V. Proposed Issuance of the Exposure Draft and Comment Period End Date

It is currently anticipated that the ASB will vote to issue the proposed Quality Management standards in the second quarter of 2022. If the ARSC concludes that it is appropriate to issue the proposed Quality Management SSARS at the same time as the proposed Quality Management standards, the ARSC should target its May 2022 meeting for a vote to issue the proposed standard as a final SSARS. If the ASB revises its timeline, the ARSC can adjust accordingly. At this time, working backward:

- May 2022 – ARSC meeting to vote to issue the proposed revisions to AR-C sections 60 and 90 as a final SSARS
- February/March/April 2022 – ARSC meeting to consider comment letters received on the exposure draft of the proposed revisions to AR-C sections 60 and 90
- January 31, 2022/February 28, 2022/March 3, 2022 – Comment period ends (based on 60-, 90-, or 120-day (approximate) comment period)
- By December 1, 2021 – Exposure draft issued

ARSC Consideration

The ARSC is asked to consider an appropriate comment period and, conclude as to an appropriate timeline for issuance of the proposed SSARS.

Overall ARSC Action

The ARSC is asked to vote to expose the proposed revisions to AR-C sections 60 and 90 for public comment.

Agenda Items Presented:

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| Agenda item 2A | Proposed amendment to AR-C sections 60, <i>General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services</i> and 90, <i>Review of Financial Statements</i> – redline to highlight revisions from the May 2021 draft |
| Agenda item 2B | Proposed amendment to AR-C sections 60, <i>General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services</i> and 90, <i>Review of Financial Statements</i> – clean |
| Agenda item 2C | Draft explanatory memorandum that will be included in the exposure draft of the proposed revisions to AR-C sections 60 and 90. |
| Agenda item 2D | Extract of comment letters received on ASB’s public exposure of the proposed Quality Management SAS. |

Note – as the draft amendments are presented in ***boldface italics*** and ~~strikethrough~~, agenda item 2B effectively serves as a markup from extant AR-C sections 60 and 90.