



Revisions from May 2021 ARSC meeting

Proposed Amendment to SSARS No. 21, as amended, section 60, General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services (AICPA, Professional Standards, AR-C sec. 60)

- 1. This amendment is effective for engagements performed in accordance with Statements on Standards for Accounting and Review Services (SSARSs) for periods ending on or after December 15, ~~2023~~2024.*

(***Boldface italics*** denotes new language. Deleted text is shown in ~~strikethrough~~.)

[No proposed amendment to paragraphs .01–.06.]

Definitions

.07 For purposes of SSARSs, the following terms have the meanings attributed as follows:

...

Engagement partner.^{fn4} The partner or other ~~person in~~ ***individual appointed by*** the firm who is responsible for the engagement and its performance and for the report that is issued on behalf of the firm and who, when required, has the appropriate authority from a professional, legal, or regulatory body.

^{fn4} This term is also defined in paragraph .13 of QC section 10, *A Firm's System of Quality Control*, for purposes of the Statements on Quality Control Standards. Refer to QC section 10 for specific language

...

Relevant Ethical Requirements. Principles of professional ethics and ethical requirements to which the engagement team and, if applicable, the engagement quality reviewer are subject, which consist of the AICPA Code of Professional Conduct together with rules of applicable state boards of accountancy and applicable regulatory agencies that are more restrictive.

...

[No proposed amendment to paragraphs .08–.19.]

* This date ~~is provisional but will not be earlier than December 15, 2023~~ will be consistent with the effective date of the proposed Statement on Auditing Standards (SAS), *Quality Management for an Engagement Performed in Accordance With Statements on Auditing Standards*. The Auditing Standards Board is currently considering the appropriate effective date of such proposed SAS.

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Commented [MG1]: Consistent with proposed QM SAS. See page 129 of ED.

Commented [MG2]: "if applicable" wording added to the QM SAS definition as the firm may not require an engagement quality review.

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Commented [MG3]: Consistent with proposed QM SAS. See page 129 of ED.

Engagement Level Quality Control Management

.20 In an engagement performed in accordance with SSARSs, the engagement partner should ~~determine that members of the engagement team possess the~~ **have the appropriate** competence and capabilities, **including sufficient time**, to perform the engagement and ~~competence in financial reporting, including being given sufficient time,~~ appropriate to the engagement circumstances.

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Commented [MG4]: Not in the QM SAS but, appropriate for AR-C section 90 as it runs to different engagements.

.21 In an engagement performed in accordance with SSARSs, the engagement partner should take **overall** responsibility for the following: (Ref: par. A40-.A43)

Commented [MG5]: Paragraph .26 of the proposed QM SAS reads as follows:

26. The engagement partner should determine that members of the engagement team, and any auditor's external specialists and internal auditors who provide direct assistance who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement.

a. The overall **Managing and achieving** quality of ~~on~~ each engagement to which that partner is assigned **and being sufficiently and appropriately involved throughout the engagement**

Commented [MG6]: Paragraph .13 of the proposed QM SAS reads as follows:

13. The engagement partner should take overall responsibility for managing and achieving quality on the audit engagement, including taking responsibility for creating an environment for the engagement that emphasizes the firm's culture and expected behavior of engagement team members. In doing so, the engagement partner should be sufficiently and appropriately involved throughout the audit engagement such that the engagement partner has the basis for determining whether the significant judgments made, and the conclusions reached, are appropriate given the nature and circumstances of the engagement.

b. The direction, supervision, planning, and performance of the engagement in compliance with professional standards and applicable legal and regulatory requirements

c. The accountant's report being appropriate in the circumstances

d. The engagement being performed in accordance with the firm's ~~quality control~~ policies ~~and-or~~ procedures, including the following:

i. Being satisfied that appropriate procedures regarding **the firm's policies or procedures for** the acceptance and continuance of client relationships and engagements have been followed, and that conclusions reached are appropriate, including considering whether there is information that would lead the engagement partner to conclude that management lacks integrity (Ref: par. .A45-.A46)

Commented [MG7]: Consistent with paragraph .25 of the QM SAS.

ii. **Determining that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner, taking into account the nature and circumstances of the engagement, the firm's policies or procedures, and any changes that may arise during the engagement.**

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iii. ~~Being satisfied that the engagement team collectively has the appropriate competence and capabilities to perform the engagement, including being given sufficient time, and expertise in financial reporting to~~ (Ref: par. .A47)

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~~(1) perform the engagement in accordance with professional standards and applicable legal and regulatory requirements and~~

~~(2) enable a report that is appropriate in the circumstances to be issued, if applicable~~

Commented [MG8]: Not necessary given proposed revisions to paragraph .20.

iii. Taking responsibility for appropriate engagement documentation being maintained

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[No amendment to paragraph .22. Paragraph .25 is unchanged and is included for contextual

purposes.]

Compliance With Relevant Ethical Requirements

.23 Throughout the engagement, the ~~The~~ engagement partner should remain alert ~~throughout the engagement~~, through observation and making inquiries as necessary, for ~~evidence of noncompliance with breaches of~~ relevant ethical requirements ~~or the firm's related policies or procedures~~ by members of the engagement team. If matters come to the engagement partner's attention through the firm's system of quality control ~~management~~, or otherwise ~~from other sources~~, that indicate that ~~members of the engagement team have not complied with~~ relevant ethical requirements ~~applicable to the engagement have not been fulfilled~~, the engagement partner, in consultation with others in the firm, should ~~determine~~ the ~~take~~ appropriate action.

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Monitoring and Remediation

.24 An effective ~~A firm's~~ system of quality control for a firm ~~management~~ includes ~~establishing~~ a monitoring ~~and remediation~~ process designed to provide the firm with reasonable assurance that the firm's policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively ~~to~~.

(a) Provide ~~the firm with~~ relevant, reliable, and timely information about the design, implementation, and operation of the system of quality management.

(b) Take appropriate actions to respond to identified deficiencies such that deficiencies are remediated ~~by the firm on a timely basis.~~

The engagement partner should consider the results of ~~information from~~ the firm's monitoring ~~and remediation~~ process, ~~as communicated~~ as evidenced in the latest information circulated by the firm and, if applicable, other network firms, and whether deficiencies noted in that ~~the~~ information may affect the engagement.

Commented [MG9]: Paragraphs .19 and .20 of the proposed QM SAS read as follows:

19. The engagement partner should remain alert throughout the audit engagement, through observation and making inquiries as necessary, for breaches of relevant ethical requirements or the firm's related policies or procedures by members of the engagement team. (Ref: par. A45)

20. If matters come to the engagement partner's attention through the firm's system of quality management, or from other sources, that indicate that relevant ethical requirements applicable to the nature and circumstances of the audit engagement have not been fulfilled, the engagement partner, in consultation with others in the firm, should take appropriate action. (Ref: par. A46)

Commented [MG10]: Consistent with paragraph 36 on page 49 of the QM ED.

Question for the ARSC, because this is in the proposed QM standard, do we need this in AR-C section 60?

Commented [MG11]: Paragraph .39 of the QM SAS reads as follows:

39. The engagement partner should take responsibility for the following: (Ref: par. A109– A112)

a. Obtaining an understanding of the information from the firm's monitoring and remediation process, as communicated by the firm, including, as applicable, the information from the monitoring and remediation process of the network and across the network firms

b. Determining the relevance and effect on the audit engagement of the information referred to in paragraph 39a and take appropriate action

c. Remaining alert throughout the audit engagement for information that may be relevant to the firm's monitoring and remediation process and communicate such information to those responsible for the process

Acceptance and Continuance of Client Relationships and Engagements

.25 The accountant should not accept an engagement to be performed in accordance with SSARSs if (Ref: par. .A48)

- a. the accountant has reason to believe that relevant ethical requirements will not be satisfied; (Ref: par. .A49)
- b. the accountant's preliminary understanding of the engagement circumstances indicates that information needed to perform the engagement is likely to be unavailable or unreliable; or (Ref: par. .A50)
- c. the accountant has cause to doubt management's integrity such that it is likely to affect the performance of the engagement.

[No amendment to paragraph .26.]

Application and Other Explanatory Material

[No amendment to paragraphs .A1–.A13.]

Ethical Requirements (Ref: par. .08)

~~.A14~~ The accountant is subject to relevant ethical requirements relating to engagements performed in accordance with SSARSs. Ethical requirements consist of those contained in the AICPA Code of Professional Conduct, together with rules of state boards of accountancy and applicable regulatory agencies that are more restrictive.

[No amendment to paragraphs ~~.A14~~~~A15~~–.A16.]

.A17 QC section 10 **Proposed Statement on Quality Management Standards, A Firm's System of Quality Control Management**, sets out the firm's responsibilities to establish and maintain its **design, implement, and operate a** system of quality control **management** for engagements performed in accordance with SSARSs and **including a requirement to** establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply **quality objectives that address the fulfillment of responsibilities in accordance** with relevant ethical requirements, including those pertaining **related** to independence.

Commented [MG12]: Consistent with proposed revisions to paragraph .A20 of AU-C section 200. See page 167 of the QM ED.

Engagement Level Quality Control Management (Ref: par. .21)

.A40 Within the context of the firm's system of quality control **management**, engagement teams have a responsibility to implement quality control ~~the firm's policies or~~ procedures that are applicable to the engagement and ~~provide~~ **communicate to** the firm with relevant information ~~to enable the functioning of~~ **arising from the engagement that is required to be communicated by the firm's policies or procedures to support** that part of the firm's system of quality control relating to independence **management**.

.A41 The actions of the engagement partner and appropriate messages to the other members of the engagement team, in the context of the engagement partner taking **overall** responsibility for the overall **managing and achieving** quality of each engagement, emphasize the fact that quality is essential when performing an engagement in accordance with SSARSs and the importance to the quality of the engagement of

- a. performing work that complies with professional standards and regulatory and legal requirements.
- b. complying with the firm's quality control **management** policies and ~~or~~ procedures, as applicable.
- c. issuing a report, if applicable, for the engagement that is appropriate in the circumstances.
- d. the engagement team's ability to raise concerns without fear of reprisals.

.A42 ~~Unless information provided by the firm or other parties suggests otherwise~~ **Ordinarily**, the engagement team is entitled to rely **may depend** on the firm's system of quality control ~~management policies or procedures unless~~.

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- **The engagement team's understanding or practical experience indicates that the firm's policies or procedures will not effectively address the nature and circumstances of the engagement; or**
- **Information provided by the firm or other parties, about the effectiveness of such policies or procedures suggests otherwise (for example, information**

provided by the firm's monitoring activities, external inspections, or other relevant sources indicates that the firm's policies or procedures are not operating effectively).

For example, the engagement team may ~~rely~~ ***depend*** on the firm's ~~system of quality control management~~ ***policies and procedures*** in relation to

- competence ***and capabilities*** of personnel through their recruitment and formal training.
- independence through the accumulation and communication of relevant independence information.
- maintenance of client relationships through ***the firm's policies or procedures for acceptance and continuance of client relationships and specific engagements systems.***
- adherence to regulatory and legal requirements through the ***firm's monitoring and remediation*** process.

When considering the deficiencies^{fn*} identified in the firm's system of quality ~~control~~ ***management*** that may affect the engagement, the engagement partner may consider ~~measures taken~~ ***the remedial actions undertaken*** by the firm to ~~rectify~~ ***address*** those deficiencies.

fn*—Proposed Statement on Quality Management Standards, A Firm's System of Quality Management

- .A43** A deficiency in the firm's system of quality ~~control~~ ***management*** does not necessarily indicate that an engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements or that the accountant's report, if applicable, was not appropriate.

[No amendment to paragraphs .A44–.A46.]

Assignment of Engagement Teams (Ref: par. .21diii)

- .A47** When considering the appropriate competence and capabilities expected of the engagement team as a whole, the engagement partner may take into consideration such matters as the team's
- understanding of, and practical experience with, engagements of a similar nature and complexity through appropriate training and participation.
 - understanding of professional standards and applicable legal and regulatory requirements.
 - technical expertise, including expertise with relevant information technology and specialized areas of accounting or attest services.
 - knowledge of relevant industries in which the client operates.
 - ability to apply professional judgment.

Commented [MG13]: Consistent with paragraph .10 of QM SAS.

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Agenda Item 2A – Draft proposed SSARS – Quality Management for an Engagement Performed in Accordance with SSARSs – redline to show changes from May 2021 Draft

- understanding of the firm's quality control ~~management~~ policies and ~~or~~ procedures.

Acceptance and Continuance of Client Relationships and Engagements (Ref: par. .25-.26)

.A48 The accountant's consideration of engagement ~~acceptance and~~ continuance ~~of client relationships and SSARSs engagements,~~ and relevant ethical requirements occurs throughout the engagement as conditions and changes in circumstances occur. Performing initial procedures on engagement ~~acceptance and~~ continuance ~~of client relationships and SSARSs~~ and evaluation of relevant ethical requirements at the beginning of an engagement informs the accountant's decisions and actions prior to the performance of other significant activities for the engagement.

Commented [MG14]: At its meeting in May 2021, the ARSC directed that "and SSARSs engagements" be deleted. ARSC is asked to reconsider wording.

Commented [MG15]: Part of preceding consideration.

[No amendment to paragraphs .A49–.A65.]

Proposed Amendment to SSARS No. 21, as amended, section 90, Review Engagements (AICPA, Professional Standards, AR-C sec. 90)

2. This amendment is effective for reviews of financial statements for periods ending on or after December 15, ~~2023~~2024.*

Commented [MG16]: Consistent with current ASB thinking.

(***Boldface italics*** denotes new language. Deleted text is shown in ~~strikethrough~~.)

[No proposed amendment to paragraphs .01–.75~~138~~.]

Accountant's Review Report

~~.76~~ The written review report should include the following: (Ref: par. A123)

~~j.~~ The date of the review report, which should be dated no earlier than the date on which the accountant has obtained sufficient appropriate review evidence as the basis for the accountant's conclusion on the financial statements, including being satisfied that

- ~~i.~~ all the statements that the financial statements comprise, including the related notes, have been prepared and
- ~~ii.~~ management has asserted that it has taken responsibility for those financial statements. (Ref: par. .A121–.A122)

~~iii.~~ ***When an engagement quality review is required in accordance with proposed Statement on Quality Management Standards, Engagement Quality Reviews, the accountant not date the report until the completion of the engagement quality review.***

[No proposed amendment to paragraphs .77–.138.]

* This date will be consistent with the effective date of the proposed Statement on Auditing Standards (SAS), *Quality Management for an Engagement Performed in Accordance With Statements on Auditing Standards*. The Auditing Standards Board is currently considering the appropriate effective date of such proposed SAS is provisional but will not be earlier than December 15, 2023.

Review Documentation

.139 In documenting the nature, timing, and extent of procedures performed as required in this section, the accountant should record the following:

- a. Who performed the work and the date such work was completed
- b. ~~If an engagement quality review was performed, who~~ Who reviewed the work performed for the purpose of ~~the quality control review for the engagement and the~~ date and extent of the review
- c. ~~If an engagement quality review was performed, who performed the engagement quality review for the engagement and the date and extent of such review~~

[No proposed amendment to paragraphs .A1–.A216.]

Proposed Amendment to SSARS No. 21, as amended, section 90, Review Engagements (AICPA, Professional Standards, AR-C sec. 90)

3. This amendment is effective upon issuance.

(Deleted text is shown in strikethrough.)

[No proposed amendment to paragraphs .01–.15.]

Agreement on Engagement Terms

.16 The accountant should agree upon the terms of the engagement with management or those charged with governance, as appropriate, prior to performing the engagement. The agreed-upon terms of the engagement should be documented in an engagement letter or other suitable form of written agreement between the parties and should include the following:

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[No proposed amendment to paragraphs .17–.A216.]

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