
EXPOSURE DRAFT

PROPOSED STATEMENT ON STANDARDS FOR ACCOUNTING AND REVIEW SERVICES

QUALITY MANAGEMENT FOR AN ENGAGEMENT PERFORMED IN ACCORDANCE WITH STATEMENTS ON STANDARDS FOR ACCOUNTING AND REVIEW SERVICES

(Amends Statement on Standards for Accounting and Review Services [SSARS] No. 21, Statements on Standards for Accounting and Review Services: Clarification and Recodification, 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] and section 90, Review of Financial Statements [AICPA, Professional Standards, AR-C sec. 90])

November X, 2021

Comments are requested by MM DD, 2022

Prepared by the Accounting and Review Services Committee for comment from persons interested in compilation, review, and reporting issues.

Comments should be submitted in Word format and sent to CommentLetters@aicpa-cima.com.

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CONTENTS

	Page
Explanatory Memorandum	
Introduction.....	4
Background.....	4
Effective Date	6
Explanation of Proposed Changes	6
Guide for Respondents.....	7
Comment Period	8
Accounting and Review Services Committee Members	9

Exposure Draft

<i>Proposed Statement on Standards for Accounting and Review Services Quality Management for an Engagement Performed in Accordance With Statements on Standards for Accounting and Review Services</i>	10
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Explanatory Memorandum

Introduction

This memorandum provides background to the proposed Statement on Standards for Accounting and Review Services (SSARS) *Quality Management for an Engagement Performed in Accordance With Statements on Standards for Accounting and Review Services*. The purpose of the proposed SSARS is to ensure that certain concepts related to quality management, where appropriate, are consistent between the auditing standards and SSARSs.

If issued as final, the proposed SSARS will amend SSARS No. 21, *Statements on Standards for Accounting and Review Services: Clarification and Recodification*, 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] and section 90, *Review of Financial Statements* [AICPA, Professional Standards, AR-C sec. 90].

Background

In February 2021, the Auditing Standards Board (ASB) exposed the following 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*.

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

All three proposed standards were exposed together. That exposure draft is available at: <https://www.aicpa.org/content/dam/aicpa/research/exposedrafts/accountingandauditing/downloadabledocuments/20210204a/20210204a-quality-mgmt-ed.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>.

The comment end date on the ASB proposed 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. Significant comments were not received on the proposed SAS and based on a preliminary review it is not anticipated that substantive changes will be made to the proposed SAS.

The ASB is currently considering the issues raised through the comment letters received as well as comments made during the roundtables. The ARSC is not requesting, and does not have the authority to consider, additional comments on either of the proposed SQMS or the proposed SAS.

Relevance to SSARSs Engagements

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). Paragraph .05 of QC section 10 states that the section applies to all CPA firms with respect to engagements in their *accounting and auditing practice* [emphasis added]. *Accounting and auditing practice* is defined in paragraph .13 of QC section 10 as follows:

A practice that performs engagements covered by this section, which are audit, attestation, compilation, review, and any other services for which standards have been promulgated by the AICPA Auditing Standards Board (ASB) or the AICPA Accounting and Review Services Committee (ARSC) under the "General Standards Rule" (ET sec. 1.300.001) or the "Compliance With Standards Rule" (ET sec. 1.310.001) of the AICPA Code of Professional Conduct. Although standards for other engagements may be promulgated by other AICPA technical committees, engagements performed in accordance with those standards are not encompassed in the definition of an accounting and auditing practice.

Neither the applicability or the definition of *accounting and auditing practice* are proposed to be substantively revised in the proposed SQMS, *A Firm's System of Quality Management*.

The ARSC has proposed revisions to ensure that certain concepts related to quality management, where appropriate, are consistent between the auditing standards and SSARSs. If, through the consideration of comments received on the proposed SSARSs, the ARSC determines it appropriate

² The ARSC was represented on ASB's Quality Standards Task Force.

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

to revise SSARSs in a manner that may be inconsistent with the auditing standards, the ARSC will work with the ASB to eliminate those inconsistencies.

Effective Date

If issued as final, the proposed amendments to AR-C sections 60 and 90, excluding the proposed amendment to paragraph .16 of AR-C section 90, will be effective for engagements performed in accordance with SSARSs for periods ending on or after December 15, 2024. Early implementation would be permitted. The proposed amendment to paragraph .16 of AR-C section 90 would be effective upon issuance.

Explanation of Proposed Changes

The proposed revisions to AR-C sections 60 and 90, excluding the amendment to paragraph .16 of AR-C section 90 which is included on the last page of this exposure draft and is explained below, are to ensure that the SSARSs, as appropriate, are consistent with the auditing standards.

Request for Specific Comment #1

Do you agree the proposed revisions to AR-C sections 60 and 90, excluding the amendment to paragraph .16 of AR-C section 90, result in the SSARSs being appropriately consistent with the auditing standards?

If you believe that the proposed revisions do not result in appropriate consistency, please provide detailed revisions which you propose should be made to SSARSs to ensure appropriate consistency with the auditing standards.

Proposed Effective Date, Excluding the Amendment to Paragraph .16 of AR-C section 90

The ASB exposure draft proposed that the revisions to AU-C section 220 would be effective for audits of financial statements for periods ending on or after December 15, 2023. Subsequently, during a public meeting, the ASB tentatively determined that the effective date would be deferred until December 15, 2024. Early implementation would be permitted.

If issued as final, the revisions to AR-C sections 60 and 90 would be effective for the same period as the proposed revisions to AU-C section 220. While the ASB has not yet finalized the effective date of the proposed revisions to AU-C section 220, the ARSC has included the effective date as currently being considered by the ASB as the effective date of the proposed SSARS.

Request for Specific Comment #2

Do you agree that the effective date of the proposed SSARS should be consistent with the effective date of the proposed SAS?

If you do not agree, please provide your reasons as to why you believe that the effective date of the proposed SSARS should not be consistent with the effective date of the auditing standard.

Technical Revision to Paragraph .16 of AR-C section 90

SSARS 25, *Materiality in a Review of Financial Statements and Adverse Conclusions* revised paragraph .11 of AR-C section 90 as follows (new wording is in ***bold italics***):

~~.11~~-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: (Ref: par. .A18–.A23)

The ARSC’s intent was to incorporate the best practice of obtaining the engaging letter prior to the start of the review engagement in the requirement to obtain the engagement letter. That revision was not included in the requirement to obtain an engagement in a preparation engagement (paragraph .10 of AR-C section 70, *Preparation of Financial Statements*), a compilation engagement (paragraph .10 of AR-C section 80, *Compilation Engagements*), a compilation of pro forma financial information (paragraph .09 of AR-C section 120, *Compilation of Pro Forma Financial Information*), or in the corresponding requirements in the auditing or attestation standards. After discussion, the ARSC concluded that the additional wording in paragraph .16 of AR-C section 90 was overly prescriptive and should be removed. That proposed revision is included in this exposure draft.

Request for Specific Comment #3

Do you agree with the proposed revision to paragraph .16 of AR-C section 90?

If you do not agree, please advise as to what revisions you believe should be made to SSARSs so that the requirements are consistent.

Proposed Effective Date of the Amendment to Paragraph .16 of AR-C section 90

If issued as final, the ARSC proposes that the amendment to paragraph .16 of AR-C section 90 be effective upon issuance. The ARSC does not believe that deleting the referenced wording will result in any practice issues and considers the proposed revision to be a technical correction of the professional literature.

Request for Specific Comment #4

Do you agree with the proposed amendment to paragraph .16 being effective upon issuance?

If you do not agree, please provide an effective date that you would consider more appropriate and your reasons for your proposal.

Guide for Respondents

Respondents are asked to comment on the proposed changes to AR-C sections 60 and 90.

Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, when appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in the exposure draft, it will be helpful for the ASB to be made aware of this view, as well.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available for public inspection at the offices of the AICPA for one year, beginning MM DD, 2021. Responses should be submitted in Word format, sent to commentletters@aicpa-cima.com, and received by MM DD, 2021. Respondents may also submit a PDF version of their response for posting to the AICPA website.

Comment Period

The comment period for this exposure draft ends MM, DD, 2022.

**Accounting and Review Services Committee
(2021–2022)**

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