

## Quality Management SSARS

### I. Objective of Agenda Item

To review proposed revisions to the 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* (QM SSARS)

- in response to comments received on the exposure draft, and
- for consistency with the draft proposed Statement on Auditing Standards (SAS) *Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards*, included as part of the agenda material for the Auditing Standards Board's (ASB) January 2022 meeting.

### II. Background

In February 2021, the Auditing Standards Board (ASB) exposed the following for public comment:

- Proposed Statements on Quality Management Standards (SQMSs) *Quality Management: A Firm's System of Quality Management* and *Engagement Quality Reviews* (QM 1 and QM 2)
- Proposed Statement on Auditing Standards (SAS) *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards* (the QM SAS)

The comment end date on the ASB's proposed standards was August 31, 2021.

In total, 171 comment letters were received on the exposure draft of the proposed standards. Although the comments received on the exposure draft addressed all aspects of the proposed 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.

If issued as final, 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)<sup>1</sup> 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 nor the definition of *accounting and auditing practice* are proposed to be substantively revised in the proposed SQMS *A Firm's System of Quality Management*.

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<sup>1</sup> All ET sections can be found in AICPA *Professional Standards*.

The ARSC has proposed revisions to AR-C section 60, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services* (AR-C section 60), and section 90, *Review of Financial Statements* to ensure that certain concepts related to quality management, where appropriate, are consistent between the proposed auditing standards and SSARSs. Those revisions were [exposed for public comment](#) on November 3, 2021 and the comment period ended on January 31, 2022. 8 comment letters were received. A summary of those comment letters is included as Agenda item 2B.

In addition to the comment letters received, the ASB has made certain revisions to the proposed QM SAS since the date of the ARSC exposure draft. The ASB considered the [proposed SAS](#) at its meeting in January 2022.

### III. Issues for ARSC Consideration

While certain of the proposed revisions to the draft QM SSARS are directly related to comments received on the exposure draft, other proposed revisions or issues to consider are to address potential inappropriate inconsistencies with the QM SAS. The exposure draft advised that such revisions may be made.

#### A. Definitions

All of the terms that are defined in paragraph 12 of the QM SAS are also defined in QM 1. While QM 1 applies to engagements performed in accordance with the auditing standards as well as engagements performed in accordance with the SSARSs, the ASB's standard-setting convention is to repeat the definitions so that each set of standards stands on its own.

Paragraph 12 of the January 2022 draft of the QM SAS is as follows. The items in red are not defined in the proposed SSARS. Each of the terms are used in the proposed SSARS – with the exception of *response (in relation to a system of quality management)* and *staff*.

12. For purposes of GAAS, the following terms have the meanings attributed as follows:

**Engagement partner.**<sup>2</sup> The partner or other individual appointed by the firm, who is responsible for the audit engagement and its performance, and for the auditor's report that is issued on behalf of the firm, and who, when required, has the appropriate authority from a professional, legal, or regulatory body.

**Engagement quality review.** An objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed before the engagement report is released.

**Engagement quality reviewer.** A partner, other individual in the firm, or an external individual appointed by the firm to perform the engagement quality review.

**Engagement team.** All partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement, excluding an auditor's external specialist<sup>3</sup> and internal auditors who provide direct assistance on an engagement.<sup>4</sup> (Ref: par. A15–A25)

**Firm.** A form of organization permitted by law or regulation whose characteristics conform to resolutions of the Council of the AICPA and is engaged in public practice. (Ref: par. A26)

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<sup>2</sup> *Engagement partner*, *partner*, and *firm* refer to their governmental equivalents when relevant.

<sup>3</sup> Paragraph .06 of AU-C section 620, *Using the Work of an Auditor's Specialist*, defines the term *auditor's specialist*.

<sup>4</sup> AU-C section 610, *Using the Work of Internal Auditors*, establishes limits on the use of direct assistance.

**Inspection.** Inspection is a retrospective evaluation of the adequacy of the firm’s quality management policies and procedures, its personnel’s understanding of those policies and procedures, and the extent of the firm’s compliance with them.

**Network.** An association of entities that includes one or more firms, as defined in “Definitions” (ET section 0.400) in the AICPA code. (Ref: par. A27)

**Network firm.** A firm or other entity that belongs to a network, as defined in “Definitions” (ET section 0.400) in the AICPA code. References to a *network firm* are to be read hereafter as “another firm or entity that belongs to the same network as the firm.”

**Partner.** Any individual with authority to bind the firm with respect to the performance of a professional services engagement. For purposes of this definition, *partner* may include an employee with this authority who has not assumed the risks and benefits of ownership. Firms might use different titles to refer to individuals with this authority.

**Personnel.** Partners and staff in the firm.

**Professional standards.** Standards promulgated by the AICPA Auditing Standards Board or the AICPA Accounting and Review Services Committee 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, or other standard-setting bodies that set auditing and attest standards applicable to the engagement being performed and relevant ethical requirements.

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

**Response (in relation to a system of quality management).** Policies or procedures designed and implemented by the firm to address one or more quality risks:

- Policies are statements of what should, or should not, be done to address a quality risk or risks. Such statements may be documented, explicitly stated in communications, or implied through actions and decisions.
- Procedures are actions to implement policies.

**Staff.** Professionals, other than partners, including any specialist the firm employs.

**ARSC Consideration**

The ARSC is asked to consider whether the terms included in red above (excluding *response (in relation to a system of quality management)* and *staff* as those terms are not used in AR-C section 60) should be included as defined terms in paragraph .07 of AR-C section 60.

**B. Engagement Level Quality Management**

The engagement partner’s overall responsibility in an engagement performed in accordance with SSARSs is included in paragraph .21 of the proposed SSARS. The following table illustrates how the proposed responsibilities compare to the corresponding requirements in the proposed QM SAS:

QM SSARS	QM SAS	Differences
.21 In an engagement performed in accordance with SSARSs, the engagement partner should take <b>overall</b> responsibility for the following: (Ref: par. .A40 <b>A41</b> –.A43 <b>A45</b> )		

QM SSARS	QM SAS	Differences
<p>a. The overall <b><i>Managing and achieving</i></b> quality of <b><i>on each</i></b> <del>the</del> engagement to which that partner is assigned, <b><i>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 and being sufficiently and appropriately involved throughout the 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.</i></b></p>	<p><b>13.</b> 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. (Ref: par. A28–A37)</p>	<p>With proposed edits, paragraphs are consistent.</p>
	<p><b>14.</b> In creating the environment described above, responsibility for clear, consistent, and effective actions being taken that reflect the firm's commitment to quality and that establish and communicate the expected behavior of engagement team members, including emphasizing the following: (Ref: par. A30–A34)</p> <ul style="list-style-type: none"> <li>a. That all engagement team members are responsible for contributing to the management and achievement of quality at the engagement level</li> <li>b. The importance of professional ethics, values, and attitudes to the members of the engagement team</li> <li>c. The importance of open and robust communication within the engagement team and supporting the ability of engagement team members to raise concerns without fear of reprisal</li> <li>d. The importance of each engagement team member maintaining professional skepticism throughout the audit engagement</li> </ul>	<p>Not in the SSARS.</p>
	<p><b>15.</b> If the engagement partner assigns the design or performance of procedures, tasks, or actions related to a requirement of this proposed SAS to other members of the engagement team to assist the engagement partner in complying with the requirements of this proposed SAS, the engagement</p>	<p>Not in the SSARS.</p>

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QM SSARS	QM SAS	Differences
	partner should continue to take overall responsibility for managing and achieving quality on the audit engagement through direction and supervision of those members of the engagement team and review of their work. (Ref: par. 9 and A37)	
<p><i>b.</i> The direction, supervision, planning, and performance of the engagement in compliance with professional standards and applicable legal and regulatory requirements</p>	<p><b>29.</b> The engagement partner should take responsibility for the direction and supervision of the members of the engagement team and the review of their work. (Ref: par. A80)</p> <p><b>30.</b> The engagement partner should determine that the nature, timing, and extent of direction; supervision, and review is (Ref: par. A81–A89 and A94–A97)</p> <p style="margin-left: 20px;"><i>a.</i> planned and performed in accordance with the firm’s policies or procedures, professional standards, and applicable legal and regulatory requirements, and</p> <p style="margin-left: 20px;"><i>b.</i> responsive to the nature and circumstances of the audit engagement and the resources assigned or made available to the engagement team by the firm.</p>	<p>“Overall” wording not used in QM SAS (subparagraph .21<i>b</i> of the QM SSARS runs to “overall responsibility” as the lead-in uses that phrase).</p> <p>Other wording differences.</p>
<p><b>.21c</b> The accountant’s report being appropriate in the circumstances</p>		<p>Not in the QM SAS.</p>
<p><b>.21d</b> The engagement being performed in accordance with the firm’s policies or procedures, including the following:</p> <p style="margin-left: 20px;"><i>i.</i> Being satisfied that 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. .A47–.A48)</p> <p style="margin-left: 20px;"><i>ii.</i> Determining that sufficient and appropriate resources</p>	<p><b>22.</b> The engagement partner should determine that the firm’s policies or procedures for the acceptance and continuance of client relationships and audit engagements have been followed, and that conclusions reached in this regard are appropriate. (Ref: par. A49–A52, A58)</p> <p><b>23.</b> The engagement partner should take into account information obtained in the acceptance and continuance process in planning and performing the audit engagement in accordance with GAAS and complying with the requirements of this proposed SAS. (Ref: par. A53–A56)</p> <p><b>24.</b> If the engagement team becomes aware of information that may have caused the firm to decline the audit engagement had that information been known by the firm prior to accepting or continuing the client relationship or specific engagement, the engagement partner should communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action. (Ref: par. A57)</p> <p><b>25.</b> The engagement partner should determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the</p>	<p>Not in the QM SSARS.</p> <p>The QM SSARS runs to management integrity but the QM SAS is broader.</p>



QM SSARS	QM SAS	Differences
<p><b>engagement</b>, through observation and making inquiries as necessary, for <del>evidence of noncompliance with</del> <b>breaches of</b> relevant ethical requirements <b>or the firm's related policies or procedures</b> by members of the engagement team. If matters come to the engagement partner's attention through the firm's system of quality control <del>management</del>, or <del>otherwise from other sources</del>, that indicate that <del>members of the engagement team have not complied with</del> relevant ethical requirements <b>applicable to the engagement have not been fulfilled</b>, the engagement partner, in consultation with others in the firm, should <del>determine the take</del> appropriate action. (Ref: par. .A49)</p>	<p>nature and circumstances of the audit engagement. (Ref: par. A38–A42 and A48)</p> <p><b>17.</b> The engagement partner should take responsibility for other members of the engagement team having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the audit engagement, and the firm's related policies or procedures, including those that address the following: (Ref: par. A23–A25 and A40–A44)</p> <ul style="list-style-type: none"> <li>a. Identifying, evaluating, and addressing threats to compliance with relevant ethical requirements, including those related to independence</li> <li>b. Circumstances that may cause a breach of relevant ethical requirements, including those related to independence, and the responsibilities of members of the engagement team when they become aware of breaches</li> <li>c. The responsibilities of members of the engagement team when they become aware of an instance of noncompliance with laws and regulations by the entity</li> </ul> <p><b>18.</b> If matters come to the engagement partner's attention that indicate that a threat to compliance with relevant ethical requirements exists, the engagement partner should evaluate the threats by complying with the firm's policies or procedures; using relevant information from the firm, the engagement team, or other sources; and take appropriate action. (Ref: par. A43–A44)</p> <p><b>19.</b> 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)</p> <p><b>20.</b> 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)</p> <p><b>21.</b> Prior to dating the auditor's report, the engagement partner should take</p>	<p>with relevant ethical requirements.</p>

QM SSARS	QM SAS	Differences
	responsibility for determining whether relevant ethical requirements, including those related to independence, have been fulfilled. (Ref: par. A38 and A47)	

**ARSC Consideration**

While the ARSC has considered narrow revisions to the SSARS requirements for consistency with the proposed QM SAS, the ARSC is asked to consider whether any revisions should be made to the proposed SSARS for further consistency with the QM SAS.

D. Monitoring and Remediation

The following table compares the engagement partner’s responsibility for monitoring and remediation between the proposed QM SSARS and the proposed QM SAS:

QM SSARS	QM SAS	Differences
<p><b>.24</b> An effective <b>A firm’s system</b> of quality control for a firm <b>management</b> includes <b>establishing</b> a monitoring <b>and remediation</b> 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:</p> <p><b>a. provide relevant, reliable, and timely information about the design, implementation, and operation of the system of quality management.</b></p> <p><b>b. take appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis.</b></p> <p>The engagement partner should consider the results of <b>information from</b> the firm’s monitoring <b>and remediation</b> process, <b>as communicated</b> as evidenced in the latest information circulated by the firm and, if applicable, other network firms, and whether <del>deficiencies noted in that</del> <b>the</b> information may affect the engagement.</p>	<p><b>16.</b> The engagement partner should have an understanding of the relevant ethical requirements, including those related to independence, that are applicable given the nature and circumstances of the audit engagement. (Ref: par. A38–A42 and A48)</p> <p><b>17.</b> The engagement partner should take responsibility for other members of the engagement team having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the audit engagement, and the firm’s related policies or procedures, including those that address the following: (Ref: par. A23–A25 and A40–A44)</p> <p>a. Identifying, evaluating, and addressing threats to compliance with relevant ethical requirements, including those related to independence</p> <p>b. Circumstances that may cause a breach of relevant ethical requirements, including those related to independence, and the responsibilities of members of the engagement team when they become aware of breaches</p>	<p>The yellow highlighted wording is consistent with paragraph .36 of the proposed <a href="#">QM1</a>. ARSC to consider whether language needs to be included in AR-C section 60.</p> <p>The QM SAS is significantly more robust with respect to the engagement partner’s responsibility for monitoring and remediation.</p>

QM SSARS	QM SAS	Differences
	<p>c. The responsibilities of members of the engagement team when they become aware of an instance of noncompliance with laws and regulations by the entity</p> <p><b>18.</b> If matters come to the engagement partner’s attention that indicate that a threat to compliance with relevant ethical requirements exists, the engagement partner should evaluate the threats by complying with the firm’s policies or procedures; using relevant information from the firm, the engagement team, or other sources; and take appropriate action. (Ref: par. A43–A44)</p> <p><b>19.</b> 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)</p> <p><b>20.</b> 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)</p> <p><b>21.</b> Prior to dating the auditor’s report, the engagement partner should take responsibility for determining whether relevant ethical requirements, including those related to independence, have been fulfilled. (Ref: par. A38 and A47)</p>	

**ARSC Consideration**

While the ARSC has considered narrow revisions to the SSARS requirements for consistency with the proposed QM SAS, the ARSC is asked to consider whether any revisions should be made to the proposed SSARS for further consistency with the QM SAS.

**IV. Agenda Items Presented:**

- **Item 2A** Proposed QM SSARS, marked with suggested revisions
- **Item 2B** Comment Letter Analysis