

Quality Management

I. Objective of Agenda Item

To consider the draft proposed SSARS, *Quality Management for an Engagement Performed in Accordance with Statements on Standards for Accounting and Review Services*, discuss any remaining issues with respect to the proposed SSARS, and vote to issue the proposed standard as a final SSARS.

The proposed SSARS has been revised pursuant to input received during the February 28, 2022 ARSC meeting as well as for an additional amendment discussed in this memorandum.

II. Issues Discussed at the February 2022 ARSC Meeting

At the February 2022 ARSC meeting, the ARSC directed that:

- All defined terms from the proposed SAS, *Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards* (the QM SAS) that are currently used in, or proposed to be used in, AR-C section 60, *General Principles for Engagements Performed in Accordance with Statements on Standards for Accounting and Review Services* be likewise defined in the proposed amendment to paragraph .07 of AR-C section 60. As a result, the following terms are defined:
 - Engagement quality review
 - Engagement quality reviewer
 - Inspection
 - Network
 - Network firm
 - Partner
 - Personnel
 - Professional standards

The terms *response (in relation to a system of quality management)* and *staff* are the only terms defined in the proposed QM SAS that are not proposed to be defined in AR-C section 60 as those terms are not used in AR-C section 60.

- Revisions be made to the requirements and application guidance in the separate sections on *engagement level quality management, compliance with relevant ethical requirements, and monitoring and remediation* for consistency, where appropriate, with the QM SAS.

III. Revision to Reporting Requirements for Compilation and Review Reports

Paragraph .41 of AU-C section 700, *Forming an Opinion and Reporting on Financial Statements* states (**emphasis added**):

The auditor's report should include the manual or printed signature **of the auditor's firm**.

Similar requirements are in other sections of Professional Standards:

- Paragraph .31f of AU-C section 930, *Interim Financial Information*
- Paragraph .63l of AT-C section 205, *Assertion-Based Examination Procedures*
- Paragraph .12k of AT-C section 206, *Direct Examination Engagements*
- Paragraph .45m of AT-C section 210, *Review Engagements*
- Paragraph .34u of AT-C section 215, *Agreed-Upon Procedures Engagements*

As a matter of fact, in every instance in which a signature was required the requirement referred to the firm – including the Peer Review Standards. The only exceptions were in AR-C sections 70, *Preparation of Financial Statements*, 80, *Compilation Engagements* and 90, *Review of Financial Statements*.

Statement on Quality Control Standards (SQCS) No. 7, *A Firm's System of Quality Control* referred to reports that are issued by "the firm or engagement partner."¹ However, SQCS No. 8, *A Firm's System of Quality Control (Redrafted)* superseded SQCS No. 7 when it was issued in 2010. SQCS No. 8 deleted the phrase "or engagement partner" on the basis that reports are issued by firms, not by engagement partners. A sole practitioner is considered a *firm*.

For consistency with other requirements and guidance in Professional Standards, it is recommended that the following paragraphs be revised:

- Paragraph .A14 of AR-C section 70
- Paragraph .17g of AR-C section 80
- Paragraph .76h of AR-C section 90

The phrase "[*Signature of accounting firm or accountant, as appropriate*]" is included in the illustrative reports in AR-C sections 80, 90, 100, *Special Considerations – International Reporting Issues*, and 120, *Compilation of Pro Forma Financial Information*. The illustrative reports are included in exhibits to the AR-C sections and are *interpretative publications* as defined in AR-C section 60, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services*.² So as not to add unnecessary and distracting language to the standard, it is proposed that edits be made to the illustrative reports as a maintenance revision when the final standard is issued. Those edits would be as follows:

[*Signature of **the accountant's** ~~accounting-firm or accountant, as appropriate~~*]

ARSC Consideration

The ARSC is asked to consider whether it agrees with the proposed revisions to AR-C sections 70, 80, and 90 proposed to be included in the final SSARS. In addition, the ARSC is asked to consider whether it agrees that corresponding revisions to the exhibits to AR-C sections 80, 90, 100, and 120 are appropriately addressed through maintenance revisions subsequent to the issuance of the final SSARS.

IV. Agenda Items Presented:

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| Agenda item 2A | Draft proposed SSARS, <i>Quality Management for an Engagement Performed in Accordance with Statements on Standards for Accounting and Review Services</i> -
- redline to show changes to the draft presented at the February 2022 ARSC meeting |
| Agenda item 2B | Draft proposed SSARS, <i>Quality Management for an Engagement Performed in Accordance with Statements on Standards for Accounting and Review Services</i> -
clean |

Mr. Glynn will use Agenda item 2A in leading the discussion.

¹ Paragraphs 3, 51b, and 118b(iii) of SQCS No. 7.

² Paragraph .07 of AR-C section 60.