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 [AR-C sec. 60], and section 90, Review of Financial Statements [AR-C sec. 90])

November 3, 2021

Comments are requested by January 31, 2022

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

Comments should be submitted in Word format and sent to CommentLetters@aicpa-cima.com.
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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 proposed 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* (AR-C section 60),¹ and section 90, *Review of Financial Statements* (AR-C section 90).

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*
- Proposed Statement on Auditing Standards (SAS) *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 International Auditing and Assurance Standards Board (IAASB), which were updated and issued in December 2020.²

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

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¹ All AR-C sections can be found in AICPA Professional Standards.
² In December 2020, the 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 2, *Engagement Quality Reviews*
- International Standard on Auditing (ISA) 220 (Revised), *Quality for an Audit of Financial Statements*

Those standards are available at https://www.iaasb.org/focus-areas/quality-management.
The comment end date on the ASB’s proposed standards was August 31, 2021. In addition, during the exposure period, the ASB’s Quality Standards Task Force 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.

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, 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 Accounting and Review Services Committee (ARSC) is not requesting, and does not have the authority to consider, additional comments on either the proposed SQMSs or the proposed SAS.

**Relevance to SSARSSs Engagements**

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) 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*.

The ARSC has proposed revisions to ensure that certain concepts related to quality management, where appropriate, are consistent between the proposed auditing standards and SSARSSs. If,

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3 The ARSC was represented on the ASB’s Quality Standards Task Force.
4 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](https://www.aicpa.org/research/exposuredrafts/accountingandauditing/comment-letters-on-proposed-quality-management-standards.html).
5 All QC sections can be found in AICPA Professional Standards.
6 All ET sections can be found in AICPA Professional Standards.
through the consideration of comments received on the proposed SSARSs, the ARSC determines it appropriate to revise SSARSs in a manner that may be inconsistent with the proposed auditing standards, the ARSC will work with the ASB to eliminate those inconsistencies.

Likewise, if the ASB makes revisions to the proposed SAS *Quality Management for an Engagement Performed in Accordance With Generally Accepted Auditing Standards*, the ARSC will consider additional revisions to the SSARSs to ensure consistency, when appropriate. For example, the ASB’s Quality Management Task Force is considering clarifying how the use of the term *deficiency* in the auditing literature differs from the use of the term in the peer review literature. If changes are made to the corresponding paragraph in the proposed SAS, this proposed SSARS will be revised for consistency.

**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 in the section “Technical Revision to Paragraph .16 of AR-C Section 90” following the “Request for Specific Comment #2,” are to ensure that the SSARSs, as appropriate, are consistent with the proposed auditing standards.

**Request for Specific Comment #1**

Do you agree that 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 proposed auditing standards?

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

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

The proposed SAS *Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards* 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 at least 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 SAS. Although the ASB has not yet finalized the change to the effective date of the proposed SAS, the ARSC has included the effective date 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 the reasons why you believe 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 No. 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 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, in the requirement to agree upon the terms of the engagement with management or those charged with governance, as appropriate, the best practice of obtaining the engagement letter prior to the start of the review engagement. That revision was not included in the corresponding requirement for 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 indicate what revisions you believe should be made to the 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 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 where appropriate, make specific suggestions for any proposed changes. When a respondent agrees with proposals in the exposure draft, it will be helpful for the ARSC 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 on the AICPA’s website after January 31, 2022, until a final standard is issued. Responses should be submitted in Word format, sent to commentletters@aicpa-cima.com, and received by January 31, 2022. 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 January 31, 2022.
Accounting and Review Services Committee
(2021–2022)

Denny F. Ard, Chair
W. Barclay Bradshaw
Ignatius L. Jackson
Karen Kerber

Michael P. Manspeaker
Kim Meyer
Michael A. Westervelt

AICPA Staff

Jennifer Burns
Chief Auditor

Michael Jones
Assistant General Counsel

Michael P. Glynn
Senior Manager
Audit and Attest Standards — Public Accounting
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 (AR-C Section 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, 2024.*

(Boldface italics denote 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. fn 1 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.

Fn1 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 will be consistent with the effective date of proposed Statement on Auditing Standards (SAS) Quality Management for an Engagement Performed in Accordance With Statements on Auditing Standards. The ASB is currently considering the appropriate effective date of such proposed SAS.
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, appropriate to the engagement circumstances. (Ref: par. .A40)

.21 In an engagement performed in accordance with SSARSs, the engagement partner should take overall responsibility for the following: (Ref: par. .A40–.A45)

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

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–.A47)

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

ii. Being satisfied that the engagement team collectively has the appropriate competence and capabilities to perform the engagement and expertise in financial reporting to (Ref: par. .A47)

(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

iii. Taking responsibility for appropriate engagement documentation being maintained

[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. (Ref: par. .A49)

**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 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 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.

**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.A50)

a. the accountant has reason to believe that relevant ethical requirements will not be satisfied; (Ref: par. .A49.A51)
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-A52)

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 .A15—.A16.]

.A17 QC section 10—Proposed Statement on Quality Management Standards (SQMS) A Firm’s System of Quality 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. As part of its system of quality management, proposed SQMS A Firm’s System of Quality Management requires the firm and 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.

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

.A47.A40 When considering determining that members of the engagement team have the appropriate competence and capabilities to perform the engagement expected of the engagement team as a whole, the engagement partner may take into consideration such matters as the team’s member’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.

• understanding of the firm’s quality control policies and procedures.

A40 A41 Within the context of the firm’s system of quality control, engagement teams have a responsibility to implement quality control policies or procedures that are applicable to the engagement and provide information 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 A42 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 on 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 policies and 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 A43 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 policies or procedures unless

• 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).

.A44 For example, the engagement team may rely 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 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.

.A43.A45 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.

[Former paragraphs .A44–.A46 are renumbered as paragraphs .A46–.A48. The content is unchanged.]

Compliance With Relevant Ethical Requirements (Ref: par. .23)

.49 Examples of appropriate actions may include the following:

- Following the firm’s policies or procedures regarding breaches of relevant ethical requirements, including communicating to or consulting with the appropriate individuals so that appropriate action can be taken, including as applicable, disciplinary action.
- Communicating with those charged with governance.
• Communicating with regulatory authorities or professional bodies. In some circumstances, communication with regulatory authorities may be required by law or regulation.

• Seeking legal advice.

• Withdrawing from the engagement, when withdrawal is possible under applicable law or regulation.

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

The accountant’s consideration of engagement acceptance and continuance of client relationships 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 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.

[Former paragraphs .A49–.A65 are renumbered as paragraphs .A51–.A67. The content is unchanged.]

Proposed Amendment to SSARS No. 21, as Amended, Section 90, Review Engagements (AR-C Section 90)

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

(Boldface italics denote new language. Deleted text is shown in strikethrough.)

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

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. Who reviewed the work performed for the purpose of quality control for the engagement and the date and extent of the review

* This date will be consistent with the effective date of proposed SAS Quality Management for an Engagement Performed in Accordance With Statements on Auditing Standards. The ASB is currently considering the appropriate effective date of such proposed SAS.
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 (AR-C Section 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:

....

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