

AICPA Proposed Statement on Quality Management Standards: A Firm's System of Quality Management (SQMS 1)
Overview of Significant Changes

SQMS Topic	Overview of Significant Changes	Paragraph(s)		
System of Quality Management (SOQM)	<ul style="list-style-type: none"> Extant QC Section 10 includes six components of quality for which the firm needs to design policies and procedures. <ul style="list-style-type: none"> SQMS 1 has eight components. The components in SQMS 1 are aligned to the elements in extant QC Section 10 and include two new components 	SQMS 1: All		
	<table border="1"> <tr> <td>Firm Risk Assessment Process</td> <td>New</td> </tr> </table>	Firm Risk Assessment Process	New	
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	<table border="1"> <tr> <td>Governance and Leadership</td> <td>Enhanced</td> </tr> </table>	Governance and Leadership	Enhanced	
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<table border="1"> <tr> <td>Resources</td> <td>Enhanced</td> </tr> </table>	Resources	Enhanced		
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<ul style="list-style-type: none"> Additional areas related to quality management were also changed as follows: 				
<table border="1"> <tr> <td>Responsibility for Quality Management</td> <td>Enhanced and New</td> </tr> </table>	Responsibility for Quality Management	Enhanced and New		
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<table border="1"> <tr> <td>Specified Responses</td> <td>Enhanced</td> </tr> </table>	Specified Responses	Enhanced		
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<table border="1"> <tr> <td>Evaluating the System of Quality Management (SOQM)</td> <td>New</td> </tr> </table>	Evaluating the System of Quality Management (SOQM)	New		
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Responsibility for the SOQM	<ul style="list-style-type: none"> Increased emphasis on leadership's accountability for the SOQM. Explicit requirements to assign specific responsibilities related to the SOQM to designated individuals: <ul style="list-style-type: none"> Operational responsibility for the SOQM; Operational responsibility for compliance with independence requirements; and Operational responsibility for the monitoring and remediation process. Enhanced requirements addressing the qualifications of individuals assigned responsibilities: <ul style="list-style-type: none"> Includes the individual(s) assigned ultimate responsibility and accountability for the SOQM. Required to have the appropriate experience, knowledge, influence, and authority within the firm, and sufficient time, to perform their assigned responsibility. New requirement requiring a direct line of communication between: <ul style="list-style-type: none"> The individual(s) assigned operational responsibility for the SOQM, compliance with independence requirements and the monitoring and remediation process; and The individual(s) assigned ultimate responsibility and accountability for the SOQM. 	SQMS 1: 18-23		
Risk Assessment	<ul style="list-style-type: none"> The firm's risk assessment process is new to SQMS 1. New requirements for designing and implementing a risk assessment process to: <ul style="list-style-type: none"> establish quality objectives 	SQMS 1: 17, 24-28		

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	<ul style="list-style-type: none"> ○ identify and assess quality risks; and ○ design and implement responses to the quality risks identified. • Addresses sources of establishing quality objectives (i.e. may come from law, regulation, professional standards, nature of the firm and the nature of its engagements) to enhance identification and assessment of quality risks and the design and implementation of responses. • To identify and assess the quality risks, the firm is required to understand the conditions, events, circumstances, actions, and inactions in the nature of the firm and in the nature of the engagements performed by the firm. • Requirement addressing the iterative nature of the risk assessment and the firm’s need to establish policies and procedures to identify additional quality objectives, additional or modified quality risks or responses due to changes in the nature of the firm or its engagements. 	
Governance and Leadership	<ul style="list-style-type: none"> • New and enhanced requirements regarding the firm’s commitment to quality through its culture. <ul style="list-style-type: none"> ○ As part of the firm’s culture, the requirements now also address: <ul style="list-style-type: none"> ▪ The firm’s public interest role ▪ The importance of professional ethics, values and attitudes ▪ The responsibility of all personnel for quality relating to the performance of engagements or activities within the SOQM, and their expected behavior ▪ Quality in the context of the firm’s strategic decisions and actions, including the firm’s financial and operational priorities • New requirements addressing leadership’s behavior and commitment to quality, and their accountability for quality. • New requirements addressing the organizational structure of the firm and the firm’s assignment of roles, responsibilities and authority. • New requirements addressing resource needs, and resource planning, allocation and assignment, which also include financial resources. 	SQMS 1: 29
Ethical Requirements	<ul style="list-style-type: none"> • Less prescriptive: adjusted to principles-based requirements to establish quality objectives addressing the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to independence. • Equal focus on all relevant ethical requirements (i.e., not solely emphasizing independence as in extant QC Section 10). • Improved clarity regarding the extent to which the SOQM needs to address the relevant ethical requirements that apply to others outside the firm (e.g., the network, network firms, individuals in the network or network firms, or service providers). • Improved clarity regarding the scoping of the relevant ethical requirements in the context of the SOQM. 	SQMS 1: 17, 30
Acceptance and Continuance	<ul style="list-style-type: none"> • Less prescriptive: adjusted to principles-based requirements to establish quality objectives addressing the acceptance and continuance of client relationships and specific engagements. • Focus on the firm’s judgments in determining whether to accept or continue the client relationships and specific engagements. 	SQMS 1: 31

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	<ul style="list-style-type: none"> • Enhanced requirement to drive the firm to obtain information about the nature and circumstances of the engagement and the integrity and ethical values of the client (including management, and, when appropriate, those charged with governance). • New requirement addressing the financial and operational priorities of the firm in the context of making decisions about whether to accept or continue a client relationship or specific engagement. 	
Engagement Performance	<ul style="list-style-type: none"> • Adjusted to principles-based requirements to establish quality objectives addressing engagement performance. <ul style="list-style-type: none"> ○ Principles-based requirements still include consultation, differences of opinion and addressing the assembly, maintenance and retention of engagement documentation. • New requirement addressing engagement teams' responsibilities in connection with engagements, including the overall responsibility of an engagement partner for managing and achieving quality on an engagement and being sufficiently and appropriately involved throughout the engagement. • Enhanced requirement addressing direction and supervision of engagement teams and review of the work performed, which is focused on what is appropriate given the nature and circumstances of the engagements and the resources assigned or made available to the engagement teams. • New requirement addressing engagement teams exercise of appropriate professional judgment and, when applicable to the type of engagement, professional skepticism. • Requirements dealing with engagement quality reviews have been relocated in SQMS 1 and SQMS 2 (see further details in the specified responses section). 	SQMS 1: 32
Resources	<ul style="list-style-type: none"> • New requirements that address the need for technological (e.g., audit tools or IT applications used by the firm for independence monitoring) and intellectual resources to enable the operation of the SOQM and performance of engagements. • Expanded requirements for human resources, in particular: <ul style="list-style-type: none"> ○ New requirement to have competent and capable human resources to perform activities or carry out responsibilities in relation to the operation of the SOQM, and assign individuals to perform activities within the SOQM; ○ New requirement addressing the need to obtain individuals from external resources (e.g., the network, another network firm or a service provider) when the firm does not have the personnel to operate the SOQM or perform engagements; and ○ New requirement addressing personnel's commitment to quality and accountability or recognition through timely evaluations, compensation, promotion and other incentives. • New requirement addressing service providers, i.e., that resources from service providers are appropriate for use in the SOQM and performance of engagements. 	SQMS 1: 17, 33
Information and Communication	<ul style="list-style-type: none"> • New component in SQMS 1. • New and enhanced requirements for obtaining, generating or using information and communicating information, to enable the design, implementation and operation of the SOQM. The new requirements address: <ul style="list-style-type: none"> ○ The firm's information system; 	SQMS 1: 34

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	<ul style="list-style-type: none"> ○ The culture of the firm in the context of information and communication (e.g., recognizing and reinforcing the responsibility of personnel to exchange information with the firm and with one another). ○ Exchanging information between the firm and engagement teams (Note: This has been enhanced from QC Section 10 that requires the firm to communicate its policies and procedures to personnel). ○ Communicating information within the firm's network and to service providers. ○ Other communication externally related to the SOQM, i.e., when it is required by law, regulation or professional standards, or to support external parties' understanding of the SOQM. 	
Specified Responses	<ul style="list-style-type: none"> ● Specified responses are primarily existing requirements that have been enhanced: <ul style="list-style-type: none"> ○ The policies or procedures addressing which engagements need to be subject to an engagement quality review. ○ The policies or procedures addressing threats to compliance with relevant ethical requirements and breaches of the relevant ethical requirements deal with all relevant ethical requirements (extant QC Section 10 focuses on independence). ○ The requirement to obtain confirmation of compliance with independence has been adjusted to refer to independence requirements, instead of the firm's policies or procedures on independence. ○ The policies or procedures addressing complaints and allegations are similar to extant QC Section 10, with an enhanced focus on receiving, investigating and resolving complaints and allegations. ○ The policies or procedures addressing specific matters relating to engagement acceptance and continuance have been clarified and expanded to require the firm to also address circumstances when the firm is obligated by law or regulation to accept a client relationship or specific engagement. ● New requirements addressing communication with external parties (see the information and communication section for further details). 	SQMS 1: 17, 35
Monitoring and Remediation	<ul style="list-style-type: none"> ● The monitoring and remediation process has been extensively enhanced from extant QC Section 10, including: <ul style="list-style-type: none"> ○ A new focus on monitoring the SOQM as a whole; ○ A new requirement prohibiting self-review; ○ A new framework for evaluating findings and identifying deficiencies, and evaluating identified deficiencies; and ○ More robust remediation. ● The requirements addressing communication of matters related to monitoring and remediation are similar to extant QC Section 10. 	SQMS 1: 17, 36-48
Network Requirements or Network Services	<ul style="list-style-type: none"> ● The requirements addressing network requirements or network services are mostly new to SQMS 1. ● SQMS 1 clarifies that the firm remains responsible for its system of quality management, even when complying with network requirements or using network services ● Extant QC Section 10 only includes a requirement dealing with the network's communication when the firm relies on the network's common monitoring policies and procedures. 	SQMS 1: 17, 49-53
Evaluating the SOQM	<ul style="list-style-type: none"> ● The requirement to evaluate the SOQM and conclude on its effectiveness in achieving the objectives of the SOQM at least annually is new to SQMS 1. 	SQMS 1: 54-57
Documentation	<ul style="list-style-type: none"> ● New and enhanced requirements from extant QC Section 10, comprising: 	SQMS 1: 58-61

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	<ul style="list-style-type: none"> ○ An overarching principles-based requirement for documentation (this requirement has similarities to the documentation principles in AU-C 230); and ○ Specific requirements to document certain matters related to the SOQM. ● The requirement addressing the retention of documentation for the SOQM is consistent with extant QC Section 10. 	
Eligibility of Engagement Reviewers	<ul style="list-style-type: none"> ● New requirement specifying a cooling-off period of two years, or a longer period if required by relevant ethical requirements, before the engagement partner can assume the role of engagement quality reviewer. 	SQMS 2: 19