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Proposed Statement on  
Quality Management Standards

# *A Firm's System of Quality Management*



# What?

Proposed SQMS A *Firm's System of Quality Management* (proposed SQMS No. 1) supersedes Statement on Quality Control Standards (SQCS) No. 8, *A Firm's System of Quality Control* (QC sec. 10) and requires a firm to design, implement and operate a system of quality management that is customized for the nature and circumstances of its accounting and auditing practice.

## The proposed standard consists of:

- Eight components that operate in an iterative and integrated manner
- Other requirements that address the roles and responsibilities for the system, leadership's overall evaluation of the system, network requirements or network services and documentation.



# Why change?

The changes are intended to:

**1** Update the standards for advances in technology and changes in the business environment since the standards were last revised in 2006.

**2** Replace the current "one-size-fits-all" model with a more scalable approach to quality for firms of all sizes.

**3** Help firms identify and address risks specific to their practice — and therefore address potential issues with quality, consistency, leadership and governance.

# What are the significant changes?

## More robust governance and leadership

Proposed SQM No. 1 addresses, among other matters:

- The firm demonstrating a commitment to quality through its culture that exists throughout the firm and includes recognizing and reinforcing:
  - The firm's role in serving the public interest by consistently performing quality engagements
  - The importance of quality in the firm's strategic decisions and actions, including those related to the firm's financial and operational priorities
- The roles, responsibilities and accountability of leadership, leadership's qualifications and undertaking performance evaluations of leadership annually

## Expanded resources

The resources component is expanded to address intellectual and technological resources, in addition to human resources.

Proposed SQMS No. 1 explicitly requires firms to consider if resources from service providers, such as methodology or quality management materials from a third-party provider, are appropriate and address how they are used and maintained.

## Improving information and communication

The proposed standard emphasizes the continual flow of information within the firm and with engagement teams and drives firms to establish an information system tailored to the firm's needs. The standard also emphasizes the firm's need to establish appropriate communications with external parties related to the system of quality management.

The exchange of information is linked to the firm's culture, so that it is driven by top leadership throughout the firm.

## Introducing a new risk-based approach focused on achieving quality objectives



### Establish quality objectives

- The proposed standard prescribes comprehensive outcome-based quality objectives in the components.
- Additional quality objectives may be established if the firm considers it necessary.



### Identify and assess quality risks

- The firm understands the conditions, events, circumstances, actions or inactions that could adversely affect the achievement of the quality objectives.
- The firm focuses on the nature and circumstances of the firm and the engagements it performs.



### Design and implement responses

- The firm designs and implements responses that address the quality risks.
- The proposed standard includes some specified responses and the firm will need to develop more – the specified responses are not comprehensive.



### Identify information that indicates changes are needed

If there are changes in the nature and circumstances of the firm or the engagements, or as a result of information from the firm's monitoring and remediation process, the firm:

- Establishes additional quality objectives or modifies existing quality objectives
- Modifies or adds to the quality risks and responses

## Proactive monitoring of the system as a whole, and timely and effective remediation



### Monitor

- The firm monitors the system as a whole.
- The firm tailors the nature, timing and extent of the monitoring activities, based on factors described in the proposed standard.
- Inspection of completed engagements — the proposed standard has an increased focus on risk-based selection and factoring in other monitoring activities the firm performs.
- Self-inspection is prohibited because “you don’t know what you don’t know.”

*The ASB is interested in hearing from smaller firms about the scalability of this prohibition.*



### Evaluate findings and identify deficiencies

- The proposed standard includes a framework for evaluating findings, identifying deficiencies and evaluating the severity and pervasiveness of the deficiencies.

*The ASB intends to guide how to evaluate deficiencies so that firms and peer reviewers have a consistent understanding.*

- The firm is required to investigate the root cause(s) of deficiencies.



### Design and implement responses

- The firm appropriately remediates deficiencies that are responsive to the root cause(s)
- Leadership is required to determine that remedial actions are effective.
- The firm considers the deficiencies and identified root causes as part of the firm’s risk assessment process.



### Evaluating the system of quality management annually

- Firm leadership evaluates and concludes whether the system of quality management is meeting its objectives.
- Evaluation is required at least annually.
- The firm takes further action if the conclusion is unsatisfactory.

### Addressing the use of networks

- The proposed standard focuses on reinforcing the firm's responsibility for its system of quality management.
- The firm understands network requirements or network services and the effect on the firm's system of quality management.
- The firm understands monitoring activities the network undertakes across network firms, including those to determine that network requirements have been appropriately implemented across network firms.



### How is scalability addressed?

- The proposed standards support flexibility and scalability for firms to tailor their system of quality management to their specific facts and circumstances through a risk-based approach.
  - Quality objectives are outcome-based – the firm determines how to achieve the quality objectives.
  - Quality risks are tailored to the firm. To identify and assess quality risks, the firm focuses on understanding conditions, events, circumstances, actions or inactions that relate to the nature and circumstances of the firm and its engagements.
  - Specific required responses are limited and scalable.
  - The monitoring and remediation process is focused on tailoring to the firm's circumstances.

The ASB believes that the proposed standards are not overly prescriptive. The ASB has identified specific requirements that may be more challenging for smaller firms to implement and is seeking feedback from smaller firms on these requirements.

DEC. 15, 2023

### Proposed effective date

Systems of quality management in compliance with proposed SQMS No. 1 would be required to be designed and implemented by Dec. 15, 2023, and the evaluation of the system of quality management required by proposed SQMS No. 1 would be required to be performed within one year following Dec. 15, 2023.

### We want to hear your feedback

The Exposure Draft *Proposed Quality Management Standards* can be viewed on the AICPA's website under [Exposure Drafts of Proposed SASs, SSAEs, and SQCSs](#). The comment period ends Aug. 31, 2021 (extended from June 11). Read more about these [here](#).

Comments on any and every aspect of the proposed standard should be sent to [commentletters@aicpa-cima.com](mailto:commentletters@aicpa-cima.com) and received by June 11, 2021. The responses may be submitted in Word format or directly in the body of the email with an appropriate signature (name, firm). Unless the respondent explicitly permits otherwise, emailed comments will be posted without the sender's email address.



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