



Agenda Item 1B

Proposed revisions to AR-C section 60 to conform with proposed QM standards

Extant AR-C section 60 Requirements	Extant AR-C section 60 Application Guidance	Proposed SAS Or QM 1 Requirements	Proposed SAS Or QM 1 Application Guidance	Proposed Revisions to AR-C section 60 Requirements	Proposed Revisions to AR-C section 60 Application Guidance	Notes
Definitions		Definitions		Definitions		
.07 For purposes of SSARs, the following terms have the meanings attributed as follows: ... Engagement partner. ^{fn1} The partner or other person in the firm who is responsible for the engagement and its performance and		12. For purposes of GAAS, the following terms have the meanings attributed as follows: Engagement partner. ^{fn} ⁴ The partner or other individual appointed by the firm, who is responsible for the audit		.07 For purposes of SSARs, the following terms have the meanings attributed as follows: ... Engagement partner. ^{fn} + The partner or other person is appointed by the firm who is		For consistency with definition in proposed SAS.

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Proposed Revisions to AR-C sections 60 and 90 – mapping from QM and SAS proposals – May 2021
ARSC Meeting, May 24, 2021

Extant AR-C section 60 Requirements	Extant AR-C section 60 Application Guidance	Proposed SAS Or QM 1 Requirements	Proposed SAS Or QM 1 Application Guidance	Proposed Revisions to AR-C section 60 Requirements	Proposed Revisions to AR-C section 60 Application Guidance	Notes
<p>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.</p> <p>^{Fn1} This term is also defined in paragraph .13 of QC section 10, <i>A Firm's System of Quality Control</i>, for purposes of the Statements on Quality Control Standards. Refer to QC section 10 for specific language</p> <p>...</p>		<p>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.</p> <p>^{Fn4} <i>Engagement partner, partner, and firm</i> refer to their governmental equivalents when relevant.</p> <p>...</p> <p>Relevant ethical requirements. Principles of professional ethics and ethical requirements to which the engagement team and engagement quality reviewer are</p>		<p>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.</p> <p>^{Fn1} This term is also defined in paragraph .13 of QC section 10, <i>A Firm's System of Quality Control</i>, for purposes of the Statements on Quality Control Standards. Refer to QC section 10 for specific language</p> <p>...</p> <p><u>Relevant Ethical Requirements.</u> Principles of professional ethics and ethical requirements to which the engagement team are subject, which consist of the AICPA Code of Professional</p>		<p>The term is not defined in proposed QM1.</p> <p>For consistency with auditing standards, proposed to include definition in AR-C section 60. In extant AR-C section 60, definition is included in paragraph .A14</p>

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		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.		<u>Conduct together with rules of applicable state boards of accountancy and applicable regulatory agencies that are more restrictive.</u>		(proposed to be deleted below). Proposed definition is consistent with proposed revised definition in AU-C section 220 except “and engagement quality reviewer” language is not included as such a review is not required in a SSARSs engagement.
Ethical Requirements	Ethical Requirements (Ref: par. 08)				Ethical Requirements (Ref: par. 08)	
.08 The accountant should comply with relevant ethical requirements (Ref: par. .A14-.A17)	.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.				.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.	Paragraph proposed to be deleted as the guidance has been moved to a proposed definition of <i>relevant ethical requirements</i> .

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	<p>.A17 QC section 10, <i>A Firm's System of Quality Control</i>, sets out the firm's responsibilities to establish and maintain its system of quality control for engagements performed in accordance with SSARs and establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements, including those pertaining to independence.</p>				<p>.A17 QC section 10 <u>Proposed Statement on Quality Management Standards, A Firm's System of Quality Control Management</u>, sets out the firm's responsibilities to <u>establish and maintain its design, implement, and operate a</u> system of quality control <u>management</u> for engagements performed in accordance with SSARs and <u>including a requirement to</u> establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply <u>quality objectives that address the fulfillment of responsibilities in accordance</u> with relevant ethical requirements,</p>	

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					including those pertaining-related to independence.	
Engagement Level Quality Control	Engagement Level Quality Control (Ref: par. .21)			Engagement Level Quality Control Control Management	Engagement Level Quality Control Control Management (Ref: par. .21)	
.20 In an engagement performed in accordance with SSARs, the engagement partner should possess the competence and capabilities to perform the engagement and competence in financial reporting, appropriate to the engagement circumstances.		33. The firm should establish the following quality objectives that address appropriately obtaining, developing, using, maintaining, allocating, and assigning resources in a timely manner to enable the design, implementation, and operation of the system of quality management: (Ref: par. A90–A91) ... d. Engagement team members are assigned to each engagement, including an engagement partner, who have appropriate competence and capabilities, including being given sufficient time, to consistently perform quality		.20 In an engagement performed in accordance with SSARs, the engagement partner should possess the <u>have appropriate</u> competence and capabilities to perform the engagement and competence in financial reporting, <u>including being given sufficient time,</u> appropriate to the engagement circumstances.		

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		engagements. (Ref: par. A92–A93, A99– A101)				
.21 In an engagement performed in accordance with SSARSS, the engagement partner should take responsibility for the following: (Ref: par. .A40–.A43)	.A40 Within the context of the firm’s system of quality control, engagement teams have a responsibility to implement quality control procedures that are applicable to the engagement and provide the firm with relevant information to enable the functioning of that part of the firm’s system of quality control relating to independence. .A41 The actions of the engagement partner and appropriate messages to the other members of the	32. The firm should establish the following quality objectives that address the performance of quality engagements: a. Engagement teams understand and fulfill their responsibilities in connection with the engagements, including, as applicable, the overall responsibility of engagement partners for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement. (Ref: par. A79) 4. The engagement team, led by the engagement partner, is responsible, within the context of the firm’s system of quality management and through complying with the requirements of this		.21 In an engagement performed in accordance with SSARSS, the engagement partner should take overall responsibility for the following: (Ref: par. .A40–.A43)	.A40 Within the context of the firm’s system of quality control management, the engagement teams have a responsibility to implement quality control the firm’s policies or procedures that are applicable to the engagement and provide communicate 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 The actions of the engagement partner and appropriate messages to the other members	For consistency with wording in paragraph .32a of proposed QM 1. Revised for consistency with paragraph 4(c) of proposed revised AU-C section 220. Changes are consistent with the changes to paragraph .20a.

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	<p>engagement team, in the context of the engagement partner taking responsibility for the overall quality of each engagement, emphasize the fact that quality is essential when performing an engagement in accordance with SSARs and the importance to the quality of the engagement of</p> <p>a. performing work that complies with professional standards and regulatory and legal requirements.</p> <p>b. complying with the firm's quality control policies and procedures, as applicable.</p> <p>c. issuing a report, if applicable, for the engagement that is appropriate</p>	<p><u>proposed SAS</u>, for the following: (Ref: <u>par. A4–A11</u>)</p> <p>a. Implementing the firm's responses to quality risks (that is, the firm's policies or procedures) that are applicable to the audit engagement using information communicated by, or obtained from, the firm</p> <p>b. Given the nature and circumstances of the audit engagement, determining whether to design and implement responses at the engagement level beyond those in the firm's policies or procedures</p>			<p>of the engagement team, in the context of the engagement partner taking <u>overall</u> responsibility for the overall-managing and achieving quality of each engagement, emphasize the fact that quality is essential when performing an engagement in accordance with SSARs and the importance to the quality of the engagement of</p> <p>a. performing work that complies with professional standards and regulatory and legal requirements.</p> <p>b. complying with the firm's quality control <u>management</u> policies and-or procedures, as applicable.</p>	

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	<p>in the circumstances.</p> <p>d. the engagement team's ability to raise concerns without fear of reprisals.</p> <p>.A42 Unless information provided by the firm or other parties suggests otherwise, the engagement team is entitled to rely on the firm's system of quality control. For example, the engagement team may rely on the firm's system of quality control in relation to</p> <ul style="list-style-type: none"> competence of personnel through their 	<p>c. Communicating to the firm information from the audit engagement that is required to be communicated by the firm's policies or procedures to support the design, implementation, and operation of the firm's system of quality management.</p>	<p>A10. Ordinarily, the engagement team may depend on the firm's policies or procedures in complying with the requirements of this proposed SAS, unless</p> <ul style="list-style-type: none"> the engagement team's understanding or practical experience indicates that 		<p>c. issuing a report, if applicable, for the engagement that is appropriate in the circumstances.</p> <p>d. the engagement team's ability to raise concerns without fear of reprisals.</p> <p>.A42 Unless information provided by the firm or other parties suggests otherwise, Ordinarily, the engagement team is entitled to rely on the firm's system of quality control management unless-</p> <ul style="list-style-type: none"> The engagement team's understanding or practical experience indicates that the firm's 	<p>Revisions for consistency with paragraph .A10 in proposed revised AU-C section 220.</p>

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	<p>recruitment and formal training.</p> <ul style="list-style-type: none"> independence through the accumulation and communication of relevant independence information. maintenance of client relationships through acceptance and continuance systems. adherence to regulatory and legal requirements through the monitoring process. <p>When considering the deficiencies identified in the firm's system of quality control that may affect the engagement, the engagement partner may consider measures taken by the firm to</p>		<p>the firm's policies or procedures will not effectively address the nature and circumstances of the engagement; or</p> <ul style="list-style-type: none"> 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 		<p><u>policies or procedures will not effectively address the nature and circumstances of the engagement; or</u></p> <ul style="list-style-type: none"> <u>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).</u> 	

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	<p>rectify those deficiencies.</p> <p>.A43 A deficiency in the firm's system of quality control 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.</p>		<p>indicates that the firm's policies or procedures are not operating effectively).</p>		<p>For example, the engagement team may rely<u>depend</u> on the firm's system of quality control<u>management</u> in relation to</p> <ul style="list-style-type: none"> • competence <u>and capabilities</u> of personnel through their recruitment and formal training. • independence through the accumulation and communication of relevant independence information. • maintenance of client relationships through <u>the firm's policies or procedures for acceptance and continuance of client relationships</u> 	

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					<p><u>and specific engagements systems.</u></p> <ul style="list-style-type: none"> adherence to regulatory and legal requirements through the <u>firm's monitoring and remediation</u> process. <p>When considering the deficiencies ^{in*} identified in the firm's system of quality control <u>management</u> that may affect the engagement, the engagement partner may consider measures taken <u>remedial actions undertaken</u> by the firm to rectify <u>address</u> those deficiencies.</p> <p>^{in*} <u>Proposed Statement on Quality Management Standards, A Firm's</u></p>	<p>Reference to definition of <i>deficiency</i>.</p>

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					<p><u>System of Quality Management</u></p> <p>.A43 A deficiency in the firm’s system of quality control <u>management</u> 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.</p>	
a. The overall quality of each engagement to which that partner is assigned				a. overall <u>The Managing and achieving</u> quality of-on each engagement to which that partner is assigned <u>and being sufficiently and appropriately involved throughout the engagement</u>		For consistency with paragraph .32a of proposed QM 1.
b. The direction, supervision, planning, and				b. The direction, supervision, planning, and		

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performance of the engagement in compliance with professional standards and applicable legal and regulatory requirements				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				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 procedures, including the following:				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 acceptance and continuance of client relationships and engagements have been followed,				i. Being satisfied that appropriate procedures regarding the firm's policies or procedures for the acceptance and continuance of client		"Policies or procedures" wording is consistent with paragraph .25 from proposed revised AU-C section 220 (see below).

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<p>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-.A46)</p>				<p>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-.A46)</p>		
		<p>25. The engagement partner should determine 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 audit engagement.</p>		<p><u>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.</u></p>		<p>Consistent with paragraph .25 of proposed revised AU-C section 220.</p>

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		the firm's policies or procedures, and any changes that may arise during the engagement. (Ref: par. A59–A70, A73–A74, and A79)		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)	.A47 When considering the appropriate competence and capabilities expected of the engagement team as a whole, the engagement partner may take into consideration such matters as the team's <ul style="list-style-type: none"> • 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 	d. Engagement team members are assigned to each engagement, including an engagement partner, who have appropriate competence and capabilities, including being given sufficient time, to consistently perform quality engagements. (Ref: par. A92–A93, A99–A101)		iii. Being satisfied that the engagement team collectively has the appropriate competence and capabilities to perform the engagement, including being given sufficient time, and expertise in financial reporting to (Ref: par. .A47)	.A47 When considering the appropriate and capabilities expected of the engagement team as a whole, the engagement partner may take into consideration such matters as the team's <ul style="list-style-type: none"> • understanding of, and practical experience with, engagements of a similar nature and complexity through appropriate training and participation. • understanding of professional 	Consistent with paragraph .33(d) of proposed QM1.

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	<p>and regulatory requirements.</p> <ul style="list-style-type: none"> • 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. 				<p>standards and applicable legal and regulatory requirements.</p> <ul style="list-style-type: none"> • 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 <u>management</u> policies and-or procedures. 	

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<p>(1) perform the engagement in accordance with professional standards and applicable legal and regulatory requirements and</p> <p>(2) enable a report that is appropriate in the circumstances to be issued, if applicable</p> <p>iii. Taking responsibility for appropriate engagement documentation being maintained</p>				<p>(1) perform the engagement in accordance with professional standards and applicable legal and regulatory requirements and</p> <p>(2) enable a report that is appropriate in the circumstances to be issued, if applicable</p> <p>iii. Taking responsibility for appropriate engagement documentation being maintained</p>		
<i>Compliance With Relevant Ethical Requirements</i>				<i>Compliance With Relevant Ethical Requirements</i>		
.23 Throughout the engagement, the engagement partner should remain alert, through observation and making inquiries as necessary, for evidence of				.23 Throughout the engagement, the engagement partner should remain alert, through observation and making inquiries as necessary, for evidence of		

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noncompliance with relevant ethical requirements by members of the engagement team. If matters come to the engagement partner's attention through the firm's system of quality control or otherwise that indicate that members of the engagement team have not complied with relevant ethical requirements, the engagement partner, in consultation with others in the firm, should determine the appropriate action.				of noncompliance with relevant ethical requirements by members of the engagement team. If matters come to the engagement partner's attention through the firm's system of quality control <u>management</u> or otherwise that indicate that members of the engagement team have not complied with relevant ethical requirements, the engagement partner, in consultation with others in the firm, should determine the appropriate action.		
Monitoring				<u>Monitoring and Remediation</u>		
.24 An effective system of quality control for a firm includes a monitoring 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. The engagement partner		36. The firm should establish a monitoring and remediation process to (Ref: par. A148) a. provide relevant, reliable, and timely information about the design, implementation, and operation of the system of quality management.		.24 An effective <u>A firm's</u> system of quality control <u>for</u> a firm <u>management</u> includes <u>establishing</u> a monitoring <u>and remediation</u> process <u>designed to provide the firm with reasonable assurance that the firm's policies and procedures relating to the system of quality control are</u>		Changes made for consistency with paragraph .36 of proposed QM 1.

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should consider the results of the firm’s monitoring process as evidenced in the latest information circulated by the firm and, if applicable, other network firms and whether deficiencies noted in that information may affect the engagement.		b. take appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis.		<p>relevant, adequate, and operating effectively to:</p> <p><u>(a) Provide the firm with relevant, reliable, and timely information about the design, implementation, and operation of the system of quality management.</u></p> <p><u>(b) Take appropriate actions to respond to identified deficiencies such that deficiencies are remediated by the firm on a timely basis.</u></p> <p>The engagement partner should consider the results of information <u>from</u> the firm’s monitoring <u>and remediation process, as communicated</u> as evidenced in the latest information circulated by the firm and, if applicable, other network firms, and whether deficiencies noted in that <u>information may affect the engagement.</u></p>		
Acceptance and Continuance of Client	Acceptance and Continuance of Client			Acceptance and Continuance of Client	Acceptance and Continuance of Client	

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Proposed Revisions to AR-C sections 60 and 90 – mapping from QM and SAS proposals – May 2021
ARSC Meeting, May 24, 2021

Extant AR-C section 60 Requirements	Extant AR-C section 60 Application Guidance	Proposed SAS Or QM 1 Requirements	Proposed SAS Or QM 1 Application Guidance	Proposed Revisions to AR-C section 60 Requirements	Proposed Revisions to AR-C section 60 Application Guidance	Notes
Relationships and Engagements	Relationships and Engagements (Ref: par. .25-.26)			Relationships and Engagements	Client Relationships and Engagements (Ref: par. .25-.26)	
<p>.25 The accountant should not accept an engagement to be performed in accordance with SSARSs if (Ref: par. .A48)</p> <p><i>a.</i> the accountant has reason to believe that relevant ethical requirements will not be satisfied; (Ref: par. .A49)</p> <p><i>b.</i> 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)</p> <p><i>c.</i> the accountant has cause to doubt management's integrity such that it</p>	<p>.A48 The accountant's consideration of engagement continuance and relevant ethical requirements occurs throughout the engagement as conditions and changes in circumstances occur. Performing initial procedures on engagement continuance 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.</p>			<p>.25 The accountant should not accept an engagement to be performed in accordance with SSARSs if (Ref: par. .A48)</p> <p><i>a.</i> the accountant has reason to believe that relevant ethical requirements will not be satisfied; (Ref: par. .A49)</p> <p><i>b.</i> 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)</p>	<p>.A48 The accountant's consideration of engagement <u>engagement acceptance and continuance of client relationships and SSARSs engagements,</u> and relevant ethical requirements occurs throughout the engagement as conditions and changes in circumstances occur. Performing initial procedures on engagement <u>engagement acceptance and continuance of client relationships and SSARSs</u> 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.</p>	

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Extant AR-C section 60 Requirements	Extant AR-C section 60 Application Guidance	Proposed SAS Or QM 1 Requirements	Proposed SAS Or QM 1 Application Guidance	Proposed Revisions to AR-C section 60 Requirements	Proposed Revisions to AR-C section 60 Application Guidance	Notes
is likely to affect the performance of the engagement.				c. the accountant has cause to doubt management's integrity such that it is likely to affect the performance of the engagement.		

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Other revisions to AR-C section 90:

Accountant's Review Report

.76 The written review report should include the following: (Ref: [par. .A123](#))

...

- j. The date of the review report, which should be dated no earlier than the date on which the accountant has obtained sufficient appropriate review evidence as the basis for the accountant's conclusion on the financial statements, including being satisfied that
 - i. all the statements that the financial statements comprise, including the related notes, have been prepared and
 - ii. management has asserted that it has taken responsibility for those financial statements. (Ref: [par. .A121-.A122](#))
 - iii. When an engagement quality review is required in accordance with proposed Statement on Quality Management Standards, *Engagement Quality Reviews*, the accountant not date the report until the completion of the engagement quality review.

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