AICPA & CIMA
Together as the Association of International Certified Professional Accountants

Quality Management (QM) Standards

Firm Toolkit

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Benefits of QM to firms and the profession

- The biggest change reflected in the new QM standards is the introduction of a risk-based approach to achieving quality objectives, which helps firms identify and address risks specific to their practice and creates a **more scalable approach** to quality for all firms
- Convergence benefits the entire profession as it allows firms to easily align with international and upcoming PCAOB standards, if needed
    - Lack of convergence would result in many firms needing dual systems of quality control and quality management – not practicable
- Quality Control (QC) is over 20 years old and doesn't consider technology
- There will no longer a boiler plate document that gets looked at one time a year
- Quality will be embedded in their practice based on the nature and circumstances in their firm.

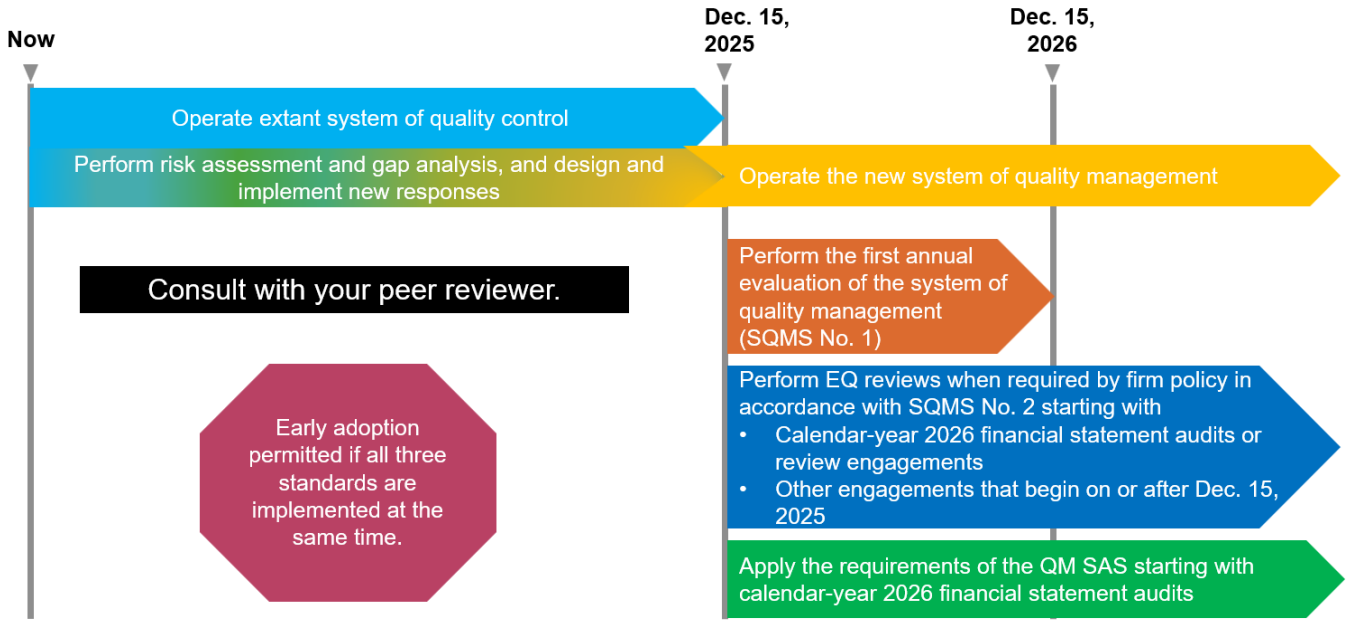
QM affects every firm that performs engagements in accordance with SASs, SSAEs or SSARS. This includes Engagement Review firms!

Important information on effective date

Firms must have completed the risk assessment and implemented the risk response, such that the system is operational, by **December 15, 2025**.

This may seem like a long way off, but the implementation period is long so that you can:

- *Start now*
- *Do it right the first time*
- *Get it done on time*



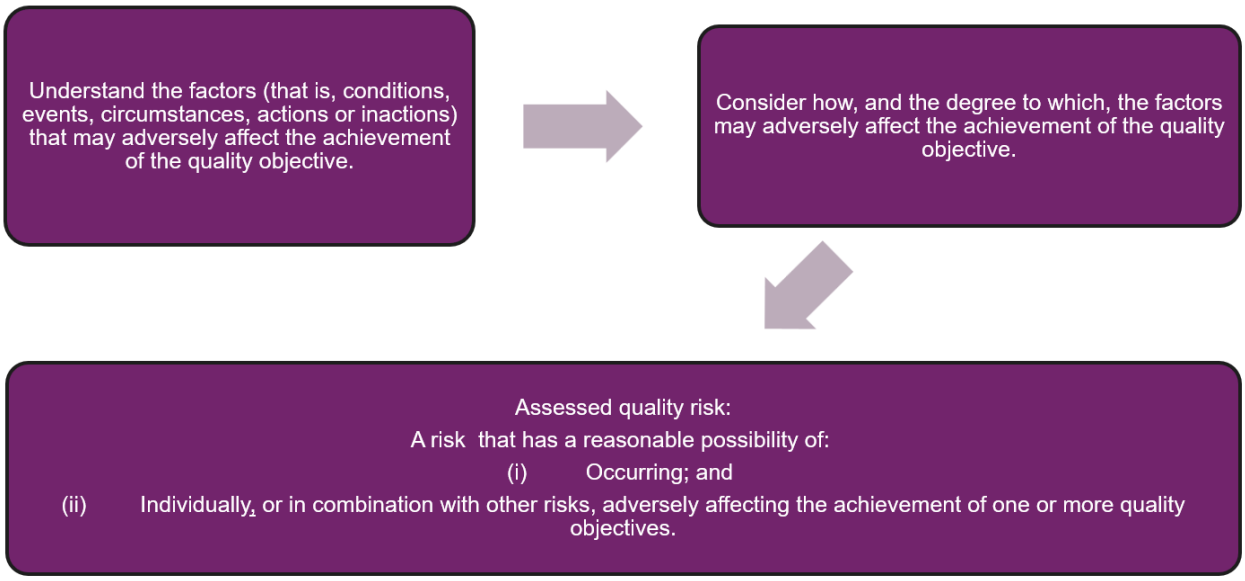
Available resources

Visit our Quality Management web page for resources and news. The main resources currently available are:

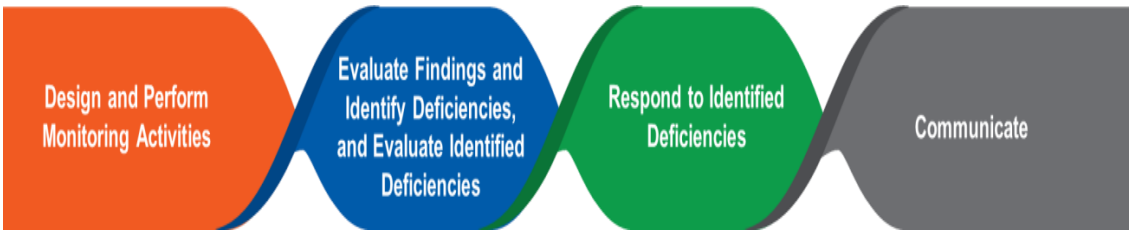
- Free practice aid: Set up your A&A quality management system
- Executive summary of SQMS Nos. 1 – 2 and SAS No. 146
- Crosswalk between SQMS No. 1 and SQCS No. 8, as amended
- Firm checklist to guide your quality management system
- Quality Management Standards – QM roundtable recording and presentation
- New Quality Management Standards Webinar Series (not free)

Steps for firms to follow to get there

1. Understand the standards – gain an overall understanding of the standards; the AICPA has developed resources to help you
2. Develop a plan for implementation
    a. Who in the firm will own and lead the implementation process?
    b. What resources will be needed for successful implementation?
    c. Talk with your peer reviewer
    d. Determine how information will be documented
    e. Develop a timeline
3. Perform the risk assessment
    a. Establish the required quality objectives
    b. Identify and assess quality risks
        i. No formal ratings or score required
        ii. Can do one component at a time



4. Perform a gap analysis
    a. Match the quality risks to your current responses (that is, policies or procedures)
    b. Identify any quality risk without any appropriate responses
    c. Identify any current responses that don't map to a quality risk
    d. Make sure to include responses required by SQMS No. 1
5. Design and implement new responses for those risks that are not addressed
    a. Helpful resources include AICPA Practice Aids, third-party providers of Quality Management Materials, and peer reviewers
    b. Current responses that don't map to a risk may no longer be necessary
6. Prepare documentation
    a. Not required to document every single consideration
    b. May be helpful to include reasons for conclusions about risk
    c. Documentation will differ based on firm's complexity
    d. For a less complex firm, documentation may include lists of the quality objectives and quality risks, and a memorandum that explains the responses and how they address the quality risks
    e. As the complexity of the firm's SQM increases, there may be a need to have more granular documentation that indicates the quality objective, the related quality risk(s), and the related responses to address those quality risks
7. Establish a process for ongoing monitoring and remediation



    a. Factors you are required to consider when establishing monitoring activities:
        i. The reasons for the assessments given to the quality risks
        ii. The design of the responses
        iii. The design of the firm's risk assessment process and monitoring and remediation process
        iv. Changes in the SQM
        v. Previous monitoring activity
8. Evaluate the new system
    a. A new requirement in SQMS No. 1 is for a firm leader to evaluate, at least annually, whether the system provides reasonable assurance that the objectives are being met.
    b. The effective date for this evaluation is within one year of December 15, 2025.
    c. Firm leadership is required to make this evaluation even in a peer review year!
    d. It is comparable to management's assertion about its system of internal control over financial reporting (ICFR), which remains management's responsibility regardless of whether an audit of an entity's system of ICFR is performed.

Lessons learned

- We are gathering lessons learned from firms that have already implemented to share with you!
- Please share your lessons learned with AICPA Staff as you go through the process!
- As you go through the process remember:
    - Document!
    - Simplify!
    - Pivot!
    - Communicate!

Documentation

- Increased expectation regarding documentation.
    - Not enough that firms just have procedures. They need to be able to document what the procedures are and how those procedures/controls address specific risks.
- Currently, many people within the firm may not know why they are performing specific steps. Documentation will help make sure everyone is on the same page.
- Consideration should be given to firms with multiple regions/offices (or merged-in practices) that may be operating differently. Need to make sure documentation covers all differences, though firms should strive to have one process.
- Excel may not be the right tool for all firms. Depending on the firm, a more sophisticated tool may be necessary.

Monitoring

- There should be a formal process for testing functional areas of monitoring.
- The findings should be compiled for a specific period.
- Firms may decide that the year-end for monitoring is more appropriately set differently than the peer review year-end.
- Firms need to ensure their engagement selection criteria is appropriate and considers factors such as prior review results and tenure of partners.
- Individuals in the monitoring function should be independent as possible.
- Findings and deficiencies per peer review and QM are different. Refer to FAQ.

Other

- IT controls should be centralized.

- Need to ensure adequate staffing of quality management function within the firm. Someone with experience testing controls makes the process easier.
- Don't strive for perfection in the first year. Aim for continuous improvement year after year.
- Internal training should be evaluated for NASBA compliance.
- Partner evaluations should be formal. Difficult process to define.
- Firms registered with the PCAOB! Be aware! Issuing final standards soon and effective date may be different. There are also differences from the QM standards.

Overview of the Standards

The Quality Management Suite of Standards includes:

- Statement on Quality Management Standards (SQMS) No. 1, *A Firm's System of Quality Management*
- SQMS No. 2, Engagement Quality Reviews (New!)
- SAS No. 146, Quality Management for Engagements Performed in Accordance with Generally Accepted Auditing Standards
- Related conforming amendments, including SSARS No. 26

SQMS 1: Key changes from ED proposals

Self-inspection

- The ED proposed a requirement that inspections be performed by someone independent of the engagement team
- Based on significant feedback, and consideration of other requirements that would be in place, the ASB concluded that:
    - A prescriptive preclusion is inconsistent with a risk-based approach to quality management
    - The cost of unintentional negative consequences of the prohibition seems to exceed the benefits
- Peer review is viewed as an effective control

Cooling-off period for EQR reviewers

- The ED proposed a requirement that the engagement partner have a two-year cooling off period before becoming EQCR
- The ASB concluded:
    - It would be inconsistent in the US to require EQR rotation (when engagement partner rotation is not required)
    - It agreed with feedback that using the former engagement partner to perform EQR when transitioning to a new engagement partner may be an appropriate response to a quality risk

Dating report before EQR is completed

- The ED proposed a requirement that when an EQCR is performed, the EQCR is completed before the report is released
- The ASB concluded:
    - To retain the extant requirement that the EQR has to be completed before the report is released, and not before the report is dated
    - The flexibility of using the report release date provides greater benefit than the logistical cost of restricting the time available for completing the EQR (noting it is not common in practice)

SQMS 1: The system and its components

QC Sec. 10	*New SQMS 1*
No equivalent	*Firm risk assessment process*
Leadership responsibilities for quality within the firm	*Governance and leadership*
Relevant ethical requirements	*Relevant ethical requirements*
Acceptance and continuance of client relationships and specific engagements	*Acceptance and continuance of client relationships and specific engagements*
Engagement performance	*Engagement performance*
Human resources	*Resources*
No equivalent	*Information and communication*
Monitoring	*The monitoring and remediation process*

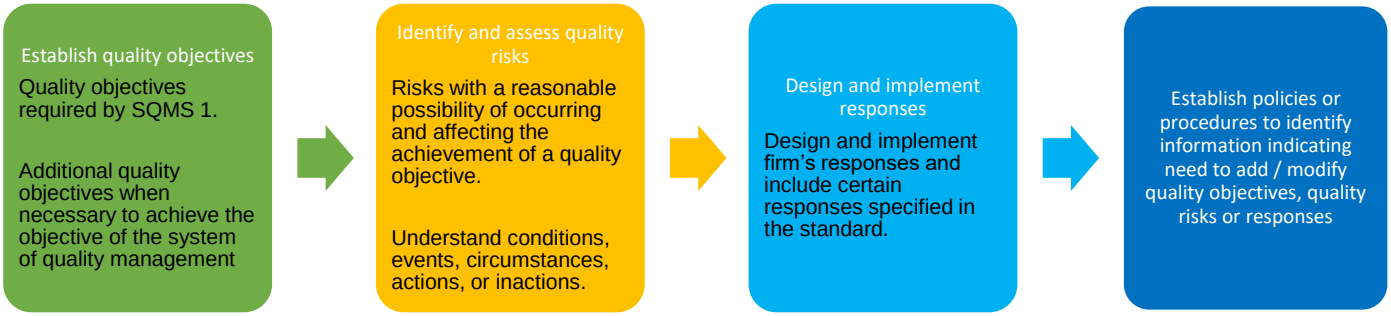
Governance and leadership and overall responsibility for the system

- Leadership
  - Specified responsibilities
  - Required to undertake an annual evaluation of the system and conclude thereon
  - Appropriate qualifications, influence and authority
  - Periodic performance evaluations of leadership
- Focus on culture that demonstrates a commitment to quality, which permeates throughout the firm
  - The firm's role in serving the public interest
  - Links quality to the firm's strategic decisions and actions
- Other matters
  - Organizational structure and assignment of roles, responsibilities and authority
  - Resources planning, including financial resources

The Firm's Risk Assessment Process (NEW!)

Mechanism that enables the firm to

- Focus on quality management and effectively manage quality
- Customize and tailor the SQM to the nature and circumstances of the firm and engagements it performs
- Be more proactive



Resources

- Human, technological and intellectual resources used in the system and in performing engagements
    - Appropriateness of resources (including financial)
    - Obtain or develop, implement, maintain, and use resources
        - Includes obtaining external individuals if needed
    - Accountability of personnel and their commitment to quality
- External service providers used in the system or in performing engagements
- Component auditors from outside the firm's network
- Determine that the resources from the service provider are appropriate for use
- Determining appropriateness of resources
    - Various factors may be considered, for example,
        - Quality risks
        - Extent resource used or how it will be used
        - Extent of customization
        - Previous use
        - Results of an examination engagement
            - Consider whether the criteria used to evaluate the resource were suitable criteria, as defined by AT-C Section 105

Information and communication (NEW!)

- Relevant and reliable information needed to operate the system
    - Information exchange embedded in culture of the firm
    - Establish an information system
- Two-way communication, internally and externally
- Communication with external parties
    - Firm addresses when it is appropriate to communicate with external parties
    - Specific information communicated, form of communication and nature, timing and extent of communication determined by the firm

Monitoring and remediation

- Monitor the ***whole*** system
- Tailor monitoring activities
    - Depends on many factors, e.g., design of system, circumstances of the firm, changes in the system, information known about the system
- Inspect completed engagements
    - Increased focus on appropriate selection taking into consideration risk and other monitoring activities
- Select engagement partners on a cyclical basis

- Framework for evaluating findings and identifying deficiencies, and evaluating severity and pervasiveness of deficiencies
    - Includes investigating the root cause(s) of deficiencies
- Appropriate remediation of deficiencies, and determining that remedial actions are effective
- Communication to leadership, engagement teams and others

The firm responsibilities when it uses the network

- Network requirements/services (e.g., policies or procedures, methodology, IT applications)
- Firm responsible for its own system – should not place undue reliance on network
    - Requirements include
        - Understand network requirements/services
        - Determine effect on the firm's system (e.g., adapt/supplement)
        - Determine effect of network-level monitoring activities on the firm's monitoring activities
        - Understand network-wide monitoring, including how the network determines that network requirements are implemented across the network
        - Exchange information with the network

Other aspects

- Engagement performance
    - Professional judgement and professional skepticism at the engagement level
- Selection of engagements for engagement quality (EQ) review
    - Expanded — includes focus on entities of significant public interest and when a review is appropriate based on risk
- Relevant ethical requirements
    - Principles-based approach
    - Includes others external to the firm (e.g., network or service providers) to the extent that the firm's relevant ethical requirements apply to them

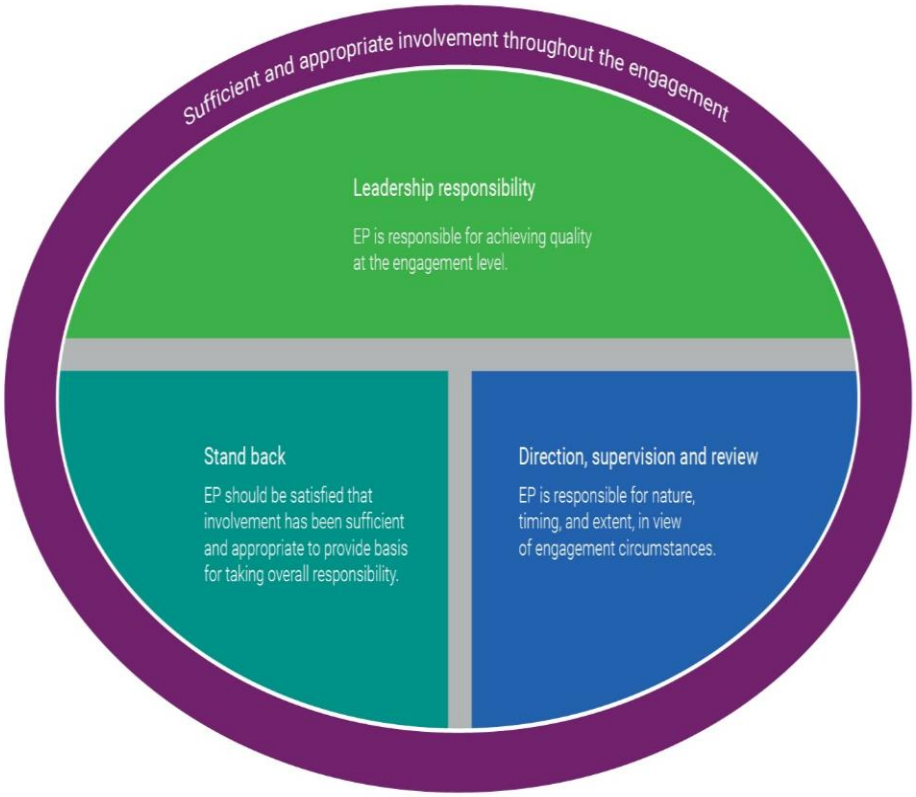
SQMS 2: An overview

- Only applies when EQ review performed
- Eligibility requirements for EQ reviewers:
    - Consider threats to objectivity but no cooling-off period required
    - Sufficient time to perform EQ review
    - Permitted use of qualified external EQ reviewers and assistants
    - Actions when eligibility of EQ reviewer is impaired
- Performance of EQ reviews
    - Focus on significant matters and significant judgements
    - Involvement of EQ reviewer at appropriate points in time throughout engagement Stand-back requirement: whether performance requirements of SQMS 2 have been fulfilled
    - Engagement partner precluded from issuing engagement report until notification of completion from EQ reviewer

SAS No. 146, Quality management for an engagement conducted in accordance with GAAS

- Evolving use of varying audit delivery models
- Engagement team may be located together or across different geographic regions
- Revised definition of **engagement team** that includes partner, staff and **any other individuals** who perform audit procedures on the engagement, including those engaged by a network firm
- Requirements have been enhanced to recognize the use of technological resources in the audit

The engagement partner's overall responsibility.



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