

QUALITY MANAGEMENT: THE NEXT A&A CURSE!

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Biography

James (“Jim”) Martin is a true “general practitioner” in Atlanta, Georgia who, for 38 years, has specialized in both income tax and accounting and audit areas. In addition to serving the accounting and tax needs of 120 clients, Jim performs 75-80 continuing education seminars per year for CPAs and attorneys throughout the United States. To date, he has prepared and presented over 2900 full and half-day seminars on accounting and taxation topics. Jim’s philosophy of CPE is simple: spend the class time on topics of applicability and relevance to all and present the topics in an entertaining and fast moving manner. He also produces self-study videos that have been among the top sellers in the southeastern United States for the past several years.

Jim regularly consults with CPA firms throughout the United States on a variety of accounting and auditing technical issues and serves as expert counsel in litigation matters.

Executive Summary

Overview

The Auditing Standards Board (ASB) has issued the following quality management (QM) standards (collectively, the QM standards):

- Statement on Quality Management Standards (SQMS) No. 1, *A Firm's System of Quality Management*
- SQMS No. 2, *Engagement Quality Reviews*
- Statement on Auditing Standards No. 146, *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*
- Statement on Standards for Accounting and Review Services (SSARS) No. 26, *Quality Management for an Engagement Conducted in Accordance With Statements on Standards for Accounting and Review Services*

SQMS No.1 supersedes Statement on Quality Control Standards (SQCS) No. 8, *A Firm's System of Quality Control* (QC section 10), and SAS No. 146 supersedes SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*, as amended, section 220, *Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards* (AU-C section 220).¹

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.

The QM standards, among other things, do the following:

- Increase firm leadership responsibilities and accountability, and improve firm governance
- Introduce a risk-based approach focused on achieving quality objectives
- Address technology, networks and the use of external service providers
- Increase focus on the continual flow of information and appropriate communication, internally and externally
- Promote proactive monitoring of quality management systems and timely and effective remediation of deficiencies
- Clarify and strengthen requirements for a more robust engagement quality review (EQR)
- Enhance the engagement partner's (EP's) responsibility for audit engagement leadership and audit quality

¹ All QC and AU-C sections can be found in AICPA *Professional Standards*.

Effective date

- Systems of quality management in compliance with SQMS No. 1 are required to be designed and implemented by Dec. 15, 2025, and the evaluation of such² is required to be performed within one year following Dec. 15, 2025.
- SQMS No. 2 is effective for
 - a. audits or reviews of financial statements for periods beginning on or after Dec. 15, 2025, and
 - b. other engagements in the firm's accounting and auditing practice beginning on or after Dec. 15, 2025. An engagement in the firm's accounting and auditing practice begins when an engagement letter or other agreement to perform attest services is signed, or when the firm begins to perform the engagement — whichever is earlier.³
- SAS No. 146 is effective for engagements conducted in accordance with generally accepted auditing standards for periods beginning on or after Dec. 15, 2025.

Introduction

This executive summary provides an overview of the QM standards.

Background

The development of the standards has been influenced by concerns about audit quality, as indicated by the results of peer reviews and studies by other regulators, such as the following:

- Risks to audit quality correlated with audits, reviews and attestation engagements performed by EPs who perform a low volume of such engagements
- Consistency issues in the performance of engagements and a lack of focus on planning
- Overreliance on intellectual resources, such as third-party quality control materials that are not sufficiently tailored to the nature and circumstances of the firm
- Challenges experienced by smaller firms in applying the standards
- A need to improve firm governance and leadership, and the culture and tone at the top of the firm

² See paragraphs 54–55 of SQMS No. 1.

³ See ET section 0.400.39 of the AICPA Code of Professional Conduct. All ET sections can be found in AICPA *Professional Standards*.

The ASB has a strategic objective to converge with the standards of the International Auditing and Assurance Standards Board (IAASB). Accordingly, SQMS Nos. 1 and 2 and SAS No. 146 were developed using 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*, and International Standard on Auditing 220 (Revised), *Quality Management for an Audit of Financial Statements*, respectively, as the base starting point. The ASB took into consideration that the PCAOB issued a concept release in December 2019 that considers using ISQM 1 as a starting point for a future PCAOB standard.

In converging, the ASB has used the terms *quality management* and *engagement quality review*, instead of the terms *quality control* and *engagement quality control review*, respectively, used in its current standards. In addition, “Statements on Quality Control Standards” have been retitled “Statements on Quality Management Standards.” These changes were made to reflect the new quality management approach for the firm’s system of quality management in SQMS No. 1, as described in the “Fundamental Aspects of the Standards” section that follows.

Fundamental aspects of the standards

SQMS No. 1

A new approach focused on quality management

The standard takes a new approach that emphasizes the responsibility of firm leadership for proactively managing quality, while at the same time being scalable to deal with differences in the size of firms and the nature of the services they provide. The essence of the new approach is to focus firms’ attention on risks that may have an impact on engagement quality. Unlike extant QC section 10, the new approach requires a firm to customize the design, implementation and operation of its system of quality management (SQM) based on the nature and circumstances of the firm and the engagements it performs. The standard takes a proactive approach to quality management, with an increased emphasis on a continual flow of remediation and improvement.

The components of the SQM

An SQM addresses the following eight components:

1. The firm’s risk assessment process (new)
2. Governance and leadership (adapted from the leadership responsibilities for quality within the firm component in QC section 10)
3. Relevant ethical requirements (same name as component in QC section 10)
4. Acceptance and continuance of client relationships and specific engagements (same name as component in QC section 10)
5. Engagement performance (same name as component in QC section 10)
6. Resources (adapted from the human resources component in QC section 10)
7. Information and communication (new)
8. The monitoring and remediation process (adapted from the monitoring component in QC section 10)

As indicated by illustration 1, the components are highly integrated and do not operate in a linear manner.

Illustration 1: The components of an SQM



Objective of the standard

The objective of the standard includes both the *objective of the firm* and the *objective of the SQM*. The *objective of the firm* in the context of the standard is to design, implement and operate a *SQM* that provides the firm with reasonable assurance that the *objectives of the SQM* are achieved. The *SQM* is designed to achieve the following two objectives:

- a.* The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements and conduct engagements in accordance with such standards and requirements.
- b.* Engagement reports issued by the firm are appropriate in the circumstances.

An effective *SQM* provides the firm with reasonable assurance regarding the achievement of the two objectives. In this context, reasonable assurance is not intended to be obtained through independent assurance that the system is effective (that is, for example, by having a peer review every year), but rather it is obtained through the operation of the system as a whole.

Risk assessment process

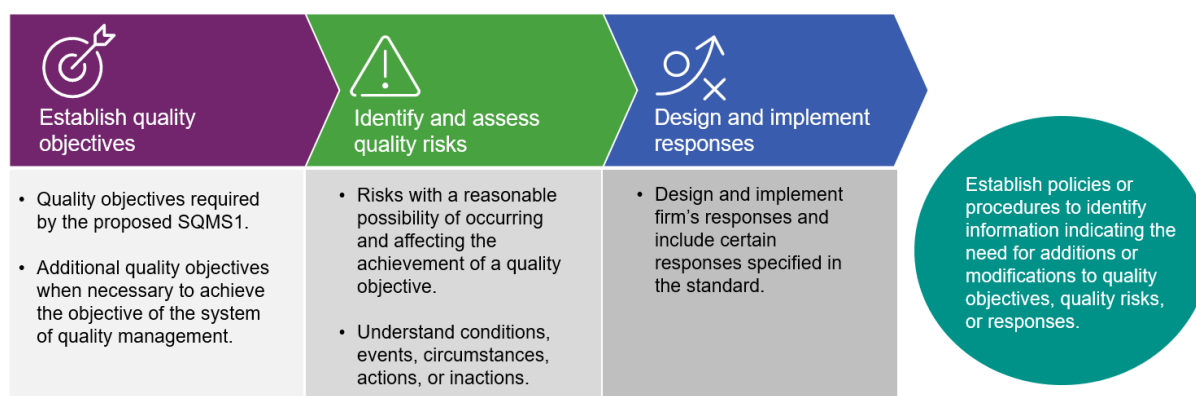
SQMS No. 1 includes a new approach that focuses firms' attention on risks that may have an impact on engagement quality. The firm's risk assessment process is a new component that comprises the process the firm is required to follow in implementing the risk-based approach to quality management.

The risk assessment is a three-step process:

1. *Establish quality objectives.* The standard requires the firm to establish specific quality objectives based on the nature and circumstances of the firm and its engagements for each component except risk assessment and monitoring and remediation. The firm is required to establish additional quality objectives when necessary to achieve the objective of the SQM. However, the firm may not find it necessary to establish additional quality objectives.
2. *Identify and assess risks to the achievement of the quality objectives* (referred to in the standard as *quality risks*). Identifying and assessing quality risks involves
 - a. understanding the factors (that is, the conditions, events, circumstances, actions or inactions) that may adversely affect the achievement of the quality objectives, and
 - b. taking into account how and the degree to which the factors may adversely affect the achievement of the quality objectives. (The assessment of identified quality risks does not require formal ratings or scores.)
 - A risk arises from how, and the degree to which, a condition, event, circumstance, action or inaction may adversely affect the achievement of a quality objective. Not all risks meet the definition of a *quality risk*.
3. *Design and implement responses to address the quality risks.* The nature, timing and extent of the firm's responses to address the quality risks are based on, and responsive to, the reasons for the assessments given to the quality risks. Certain responses are specified in the standard; however, the specific responses required by the standard will not be sufficient for the firm to address all its quality risks.

Firms are also required to identify information indicating the need for additions or modifications to quality objectives, quality risks or responses.

The risk assessment process



Governance and leadership

SQMS No. 1 provides substantial enhancements to improve the robustness of firms' governance and leadership. In particular, it addresses the expected behavior of firm leadership in setting the tone at the top, the appropriate qualifications of leadership and holding leadership accountable through performance evaluations. The standard also now addresses the importance of quality in the firm's strategic decisions and actions — including financial and operational priorities — as well as firm leadership's ability to influence decisions about the firm's resources.

The firm is required to assign ultimate responsibility and accountability for the SQM to the firm's CEO, managing partner (or equivalent) or, if appropriate, managing board of partners (or equivalent). In addition, the firm is required to assign the following to designated individuals:

- Operational responsibility for the SQM
- Operational responsibility for specific aspects of the SQM, including compliance with independence requirements and the monitoring and remediation process

Resources

Extant QC section 10 addresses only human resources. SQMS No. 1 expands this to address all resources that the firm needs both to operate the system and to perform engagements. These resources cover the following:

- Technological resources.** For example, audit tools or IT applications used by the firm for independence monitoring.
- Intellectual resources.** For example, the firm's methodology, guidance, templates or tools.
- Human resources.** This may include people outside the firm used in engagements, including component auditors or EQ reviewers who are external to the firm.

The standard focuses on what resources are needed, how they are used and maintained and whether they are appropriate. The principles-based nature of the requirements relating to resources takes into account the variety of resources used and their source. SQMS No. 1 also covers the use of resources from service providers and how to determine that those resources are appropriate for the intended use by the firm. A resource from a service provider could be a methodology, an IT application or people used in an engagement. Services that come from a firm's network, if the firm belongs to a network, are not considered as coming from a service provider (see the section "Network" that follows).

Information and communication

SQMS No. 1 includes a new component: Information and communication.

The new component underscores the importance of a continuous flow of information and communication by linking the exchange of information to the firm's culture, so that it is driven from top leadership throughout the firm. The standard requires that the firm establish an information system with processes to identify, capture, process and maintain information, acknowledging that less complex firms with fewer personnel and direct involvement of leadership may accomplish the objective with less rigorous or detailed policies and procedures.

Both internal and external communication are dealt with in the standard.

From an internal perspective, it reinforces the need for robust communication throughout the firm. From an external perspective, the standard reinforces a key public interest issue: encouraging firms to be transparent to external parties about their SQM in a relevant, innovative and proactive manner.

In order to drive the proactivity of communication, the standard requires that firms establish policies and procedures that address when communications with external parties are appropriate. To promote continual innovation in this area, the standard provides flexibility regarding the specific information communicated, the form of that communication and the nature, timing and extent of communication.

Monitoring and remediation

SQMS No. 1 enhances monitoring activities and shifts the focus from engagement level monitoring to monitoring the entire SQM. The standard promotes more proactive and effective monitoring activities through increased emphasis on tailoring the monitoring activities sufficient to provide a basis for the firm to evaluate the SQM.

The new requirements emphasize factors that firms should consider in designing monitoring activities, rather than prescribing such activities. The nature, timing and extent of monitoring activities will be driven by many firm-specific factors, including the following:

- How the underlying system is designed
- The nature and circumstances of the firm and engagements it performs
- The extent of changes to the system
- The results of previous monitoring activities or external inspections

The standard includes a requirement to inspect completed engagements and for EPs to be inspected on a cyclical basis. The firm determines its inspection criteria, including how often to select completed engagements, which completed engagements to select, which EPs to select, and how frequently to select an EP. In doing so, the firm takes into account factors such as other types of monitoring the firm does, areas of risk and how the system is designed.

The standard includes requirements for evaluating findings, identifying deficiencies and evaluating the severity and persuasiveness of the deficiencies. These include a new requirement to investigate the root cause of identified deficiencies.

The requirement is intended to be flexible to encourage firms to scale the nature, timing and extent of the procedures to investigate the root cause of the deficiencies so that they are appropriate and tailored to the circumstances. The evaluation of the severity and pervasiveness of deficiencies is also used by leadership in evaluating the system and concluding whether it achieved its objectives.

A number of improvements were also made to address remediation, including requirements of leadership to assure that remedial actions have been implemented and are effective.

Networks

SQMS No. 1 requires that if a firm is subject to network requirements or uses network services, the firm should understand how those requirements or services fit into the firm's SQM and determine whether the requirement or service needs to be adapted or supplemented to be appropriate for use in the firm's SQM. The standard addresses monitoring activities undertaken by the network and requires the firm to determine the effect of network-level monitoring activities on the firm's monitoring activities.

The firm is also required to understand the overall scope of the monitoring activities undertaken by the network across the network firms, including monitoring activities to determine that network requirements have been appropriately implemented across the network firms and to obtain information annually about the results of the network's monitoring activities. This is intended to drive improvements at the network level because firms will need networks to provide more information than they may be providing now.

Scalability

The new quality management approach drives a firm to think about the nature and circumstances of the firm and the engagements it performs in designing, implementing and operating its SQM. The approach is focused on achieving quality objectives that are outcome-based.

Although this approach is expected to generate multiple benefits for engagement quality, one of the most important benefits is a tailored SQM that is suitable for the nature and circumstances of the firm and the engagements it performs. Thus, this approach is inherently scalable for firms of different sizes and complexity.

SQMS No. 2

Relationship between SQMS No. 2 and SQMS No. 1

SQMS No. 1 requires that the firm determine when an EQR is an appropriate response to quality risks. SQMS No. 2 contains requirements for policies and procedures addressing the appointment and eligibility of engagement quality (EQ) reviewers and performance of EQRs.

Although there will no longer be requirements for the performance of EQRs in AU-C section 220, SAS No. 146 contains requirements regarding the EP's responsibilities relating to the EQR, which largely focus on how the EP and the engagement team interact with the EQ reviewer.

Why a separate standard?

The requirements for EQRs currently reside in extant QC section 10⁴ and AU-C section 220.⁵ Having a separate standard for EQRs is expected to provide a number of benefits, including the following:

- Clarifying that an EQR can be a response to quality risks for any type of engagement — not only audit engagements
- Emphasizing the importance of the EQR
- Facilitating the enhancement of the robustness of the requirements for the eligibility of EQ reviewers and the performance and documentation of the EQR
- Providing a mechanism to more clearly differentiate the responsibilities of the firm and the EQ reviewer
- Increasing the scalability of SQMS No. 1 by not including requirements that would be irrelevant in circumstances when a firm determines that there are no engagements for which an EQR is an appropriate response to address the quality risks

Objective of the standard

The objectives of the ASB's standards describe the desired outcome of applying the requirements in the standard. Accordingly, the objective of SQMS No. 2 reflects the intended outcome, which is the performance of an objective review of the engagement team's significant judgments and the conclusions reached thereon (that is, an EQR).

Appointment and eligibility of reviewers

The requirements in SQMS No. 2 for the appointment and eligibility of the EQ reviewer (whether internal to the firm or external) are more robust than those in extant QC section 10. Requirements and application material have been added to address the following:

- The eligibility of the individuals within the firm responsible for the appointment of EQ reviewers

⁴ Paragraphs .38–.48 of QC section 10, *A Firm's System of Quality Control*.

⁵ Paragraphs .21–.22 of AU-C section 220, *Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*.

- The eligibility of individuals to assist the EQ reviewer in performing the EQR
- The authority, competence and capabilities of the EQ reviewer, including sufficient time to perform the EQR
- The EQ reviewer taking responsibility for the performance of the EQR, including that the work of individuals assisting in the EQR is appropriate

The requirements also address compliance with relevant ethical requirements, including that threats to objectivity of the EQ reviewer are eliminated or reduced to an acceptable level.

Performance and documentation of the EQR

Significant judgments and significant matters

The requirements for the performance of the EQR focus the EQ reviewer's attention on significant judgments and significant matters. The standard includes a stand-back requirement for the EQ reviewer to determine whether the performance requirements of the SQMS with respect to the performance of the EQR have been fulfilled. Once the EQ reviewer has made this determination, the EQ reviewer is required to inform the EP that the EQR is complete.

Timing of the review

An effective EQR is achieved when the EQ reviewer is involved at appropriate points in the engagement, consistent with when significant judgments are being made by the engagement team because doing so facilitates the resolution of issues in a timely manner. Accordingly, SQMS No. 2 includes a new requirement addressing the EQ reviewer's responsibility to perform the procedures at appropriate points in time during the engagement.

Documentation

SQMS No. 2 includes a specific requirement for the EQ reviewer to take responsibility for documentation of the EQR and adds a requirement that the documentation be filed with the engagement documentation. The standard also includes an overarching requirement for the documentation to be sufficient to enable an experienced practitioner — having no previous connection to the engagement — to understand the nature, timing and extent of the EQR procedures performed.

SAS No. 146

Overall matters

The public interest is served by the consistent performance of quality engagements. SAS No. 146 addresses public interest considerations by encouraging proactive management of quality at the engagement level, emphasizing the importance of the exercise of professional skepticism, enhancing the documentation of the auditor's judgments and reinforcing the need for robust communications during the audit.

SAS No. 146 addresses how the EP leverages the firm's system and manages quality at the engagement level. The SAS makes clear that the EP has overall responsibility for managing and achieving quality. This includes creating an environment that emphasizes the firm's culture and expected behavior of engagement team members. These behaviors include the responsibility of all engagement team members for quality; the importance of professional ethics, values and attitudes; and the importance of professional skepticism to a quality audit.

The EP remains ultimately responsible and, therefore, accountable for compliance with the requirements of the SAS. The phrase "take responsibility for" is used for those requirements for which the EP is permitted to assign the design or performance of procedures, tasks or actions to appropriately skilled or suitably experienced members of the engagement team.

For other requirements, the SAS expressly intends that the requirement or responsibility be fulfilled by the EP. To fulfill the requirement, the EP may obtain information from the firm or other members of the engagement team (for example, information to make the required decision or judgment).

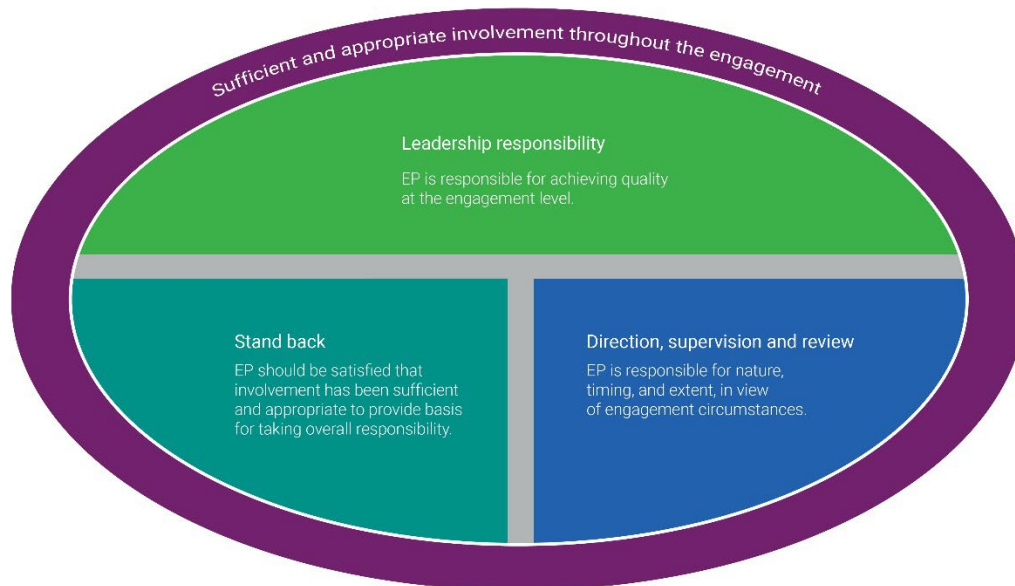
Ordinarily, the engagement team may depend on the firm's policies or procedures in complying with the requirements of this SAS, unless the engagement team's understanding or practical experience indicates that the firm's responses to quality risks are ineffective in the context of the specific engagement, or information provided by the firm or other parties indicates that the firm's policies or procedures are not operating effectively.

EP's overall responsibility for managing quality on audits, including engagement performance and stand back

The EP needs to be sufficiently and appropriately involved throughout the engagement, as this is fundamental to providing the engagement leadership required to achieve high-quality audits and, therefore, to meeting the objective of SAS No. 146.

The following diagram illustrates the EP's overall responsibility to manage and achieve quality on the engagement and how it is demonstrated through sufficient and appropriate involvement throughout the engagement, such that the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the audit.

The engagement partner's overall responsibility



Group audit engagements

Engagement team members in a group audit engagement may include personnel who are external to the firm (for example, engagement team members who are from network firms or are service providers, such as component auditors from firms not within the firm's network).

AU-C section 600, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)*, deals with special considerations that apply to an audit of group financial statements, including when component auditors are involved. Application guidance in SAS No. 146 states that the firm or EP may take different actions with respect to component auditors or other personnel who are external to the firm than the actions applicable to firm personnel.

Additionally, examples are included in application guidance in SAS No. 146 of considerations that may be made when component auditors are members of the engagement team.⁶ Conforming amendments to AU-C section 300, *Planning an Audit*, clarify in paragraph .09 that the audit plan should include a description of the nature, timing, and extent of the planned direction and supervision of engagement team members and the review of their work. This includes engagement team members who are external to the firm, such as component auditors.

⁶ See paragraphs A24, A25, A38, A54, A60, A76, A80, A91, A92, and A107 of SAS No. 146.

Relevant ethical requirements

In addition to enhancing the extant requirements, SAS No. 146 includes requirements regarding the following:

- Understanding of the relevant ethical requirements and whether other members of the engagement team are aware of those requirements and the firm's related policies or procedures
- Threats to compliance with relevant ethical requirements
- Determining whether relevant ethical requirements, including those related to independence, have been fulfilled

SAS No. 146 also includes new application material that links with the firm-level requirements in SQMS No. 1, describes possible appropriate actions if noncompliance is indicated, and links to the requirement in AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*,⁷ for the auditor's report to include a statement regarding the auditor's independence.

Engagement resources

The EP is required to take responsibility for the direction and supervision of the engagement team and review of their work. This includes tailoring the nature, timing and extent of this responsibility to the nature and circumstances of the engagement and the resources —technological, intellectual and human — assigned to the engagement. If the resources are insufficient or inappropriate, the EP is required to take appropriate action.

Other new requirements

The SAS clarifies what the EP needs to review:

- significant matters and significant judgments, and
- formal written communications to management and those charged with governance.

SSARS No. 26

SSARS No. 26 amends various AR-C sections to provide consistency regarding certain concepts related to quality management between SAS No. 146 and the SSARSs.

⁷ Paragraph .28c of AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*.



Quality Management Standards: What's Changing and What You Should Be Doing Now

What's changing?

In June 2022, the AICPA Auditing Standards Board (ASB) issued three interrelated standards on quality management (collectively, the QM standards). The new QM standards represent a significant change in how CPA firms will approach audit and attestation quality in the future, moving from a policies-based approach to a risk-based approach. Implementation of these new standards is required by Dec. 15, 2025.

The QM standards consist of the following:

- Statement on Quality Management Standards (SQMS) No. 1, *A Firm's System of Quality Management*¹
 - SQMS No. 1 supersedes Statement on Quality Control Standards (SQCS) No. 8, *A Firm's System of Quality Control* (QC sec. 10), and requires the 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.
 - An engagement quality (EQ) review is a specified response the firm designs and implements to address quality risks; it is performed by an EQ reviewer at the engagement level on behalf of the firm. SQMS No. 1 requires that the firm determine when an EQ review is an appropriate response to quality risks.
- SQMS No. 2, *Engagement Quality Reviews*
 - SQMS No. 2 addresses the appointment and eligibility of the EQ reviewer and the performance of EQ reviews.
- Statement on Auditing Standards (SAS) No. 146, *Quality Management for An Engagement Conducted in Accordance With Generally Accepted Auditing Standards*²
 - SAS No. 146 updates and supersedes AU-C section 220 and addresses quality management at the engagement level, focusing on the quality responsibilities of the engagement team and engagement partner.
- Statement on Standards for Accounting and Review Services (SSARS) No. 26, *Quality Management for an Engagement Conducted in Accordance With Statements on Standards for Accounting and Review Services*³
 - SSARS No. 26 amends the SSARSs to conform with SQMS Nos. 1 and 2.

¹ The Statements on Quality Management Standards (SQMSs) will be codified as QM sections in AICPA *Professional Standards*.

² Statements on Auditing Standards (SASs) are codified as AU-C sections in AICPA *Professional Standards*.

³ Statements on Standards for Accounting and Review Services (SSARSs) are codified in the AR-C sections in AICPA *Professional Standards*.

Who's affected?

Every firm that performs engagements in accordance with the SASs, SSARs and SSAEs.

What are the key changes?

- New **risk-based approach**, incorporating a risk assessment process driving firms to focus on **quality management tailored to their circumstances**
- **Revised components** of the system of quality management — two new components, including information and communication
- **More robust** leadership and governance requirements
- **Enhanced** monitoring and remediation processes
- **New** requirements for networks and service providers

The components of the system of quality management

The system of quality management (SQM) comprises eight interrelated components as follows:

The firm's risk assessment process	A process established by the firm as part of the SQM	<ul style="list-style-type: none">• The process the firm is required to follow in implementing the risk-based approach to quality management• Consists of establishing quality objectives, identifying and assessing quality risks to the achievement of the quality objectives, and designing and implementing responses to address the assessed quality risks
Governance and leadership	Establishes the environment in which the SQM operates	<ul style="list-style-type: none">• Deals with matters such as the firm's culture, leadership responsibility and accountability, the firm's organizational structure, assignment of roles and responsibilities, and resource planning and allocation
Relevant ethical requirements	Specific topic fundamental for engagement performance	<ul style="list-style-type: none">• Deals with fulfilling relevant ethical requirements by the firm and its personnel• Also deals with relevant ethical requirements to the extent that they apply to others external to the firm
Acceptance and continuance of client relationships and specific engagements	Specific topic fundamental for engagement performance	<ul style="list-style-type: none">• Deals with the firm's judgments about whether to accept or continue a client relationship or specific engagement

Engagement performance	Specific topic fundamental for engagement performance	<ul style="list-style-type: none"> Deals with the firm's actions to promote and support the consistent performance of quality engagements, including through direction, supervision and review, consultation and communication, and resolution of differences of opinion Includes how the firm supports engagement teams in exercising professional judgment and, when applicable to the nature and circumstances of the engagement, exercising professional skepticism
Resources	Enables operation of other components	<ul style="list-style-type: none"> Deals with obtaining, developing, using, maintaining, allocating and assigning resources in a timely manner to enable the design, implementation and operation of the SQM Includes requirements related to technological, intellectual and human resources within the firm as well as those from service providers
Information and communication	Enables operation of other components	<ul style="list-style-type: none"> Deals with obtaining, generating or using information regarding the SQM, and communicating information within the firm and to external parties, on a timely basis to enable the design, implementation and operation of the SQM
Monitoring and remediation process	A process established by the firm as part of the SQM	<ul style="list-style-type: none"> The process that <ul style="list-style-type: none"> provides the firm with relevant, reliable and timely information about the design, implementation and operation of the SQM and addresses taking appropriate actions to respond to deficiencies such that deficiencies are remediated on a timely basis

Notable differences and enhancements: Detailed comparison of the elements of quality control under QC section 10 with the components of quality management under SQMS No. 1 (see next page)

QC sec. 10 — Elements of quality control	NEW SQMS No. 1 — Components of quality management	Notable differences and enhancements
No equivalent element in QC sec. 10	The firm's risk assessment process (<i>new!</i>)	<ul style="list-style-type: none"> • New component requiring firms to establish a risk assessment process that supports the SQM • Firms should establish quality objectives, identify and assess quality risks and design and implement responses to those risks • Firms should establish specified quality objectives for: <ul style="list-style-type: none"> — Governance and leadership — Relevant ethical requirements — Acceptance and continuance of client relationships and specific engagements — Engagement performance — Resources — Information and communication • Firms should establish policies or procedures to identify information that indicates additional quality objectives and additional or modified quality risks or responses are needed due to the firm's circumstances
Leadership responsibilities for quality within the firm	Governance and leadership	<ul style="list-style-type: none"> • New focus on the role a firm's governance and leadership play in establishing an environment and culture that support the SQM • Firms should establish a culture that reinforces <ul style="list-style-type: none"> — serving the public interest; — the importance of professional ethics, values and attitudes; — the responsibility of all personnel for quality; and — the importance of quality in strategic decisions and actions • New requirements that a firm's <ul style="list-style-type: none"> — leadership is not only responsible and accountable for quality, but also expected to demonstrate a commitment to quality through its actions and behaviors — organizational structure enables its SQM — resources should be deployed in a manner that supports the firm's commitment to quality
Relevant ethical requirements	Relevant ethical requirements	<ul style="list-style-type: none"> • New emphasis on responsibilities for all relevant ethical requirements, including independence • New requirement that a firm ensures that others (e.g., network firms, individuals in the network, and service providers) who are involved in the firm's SQM or in performing engagements understand and fulfill relevant ethical requirements to which the firm and the firm's engagements are subject

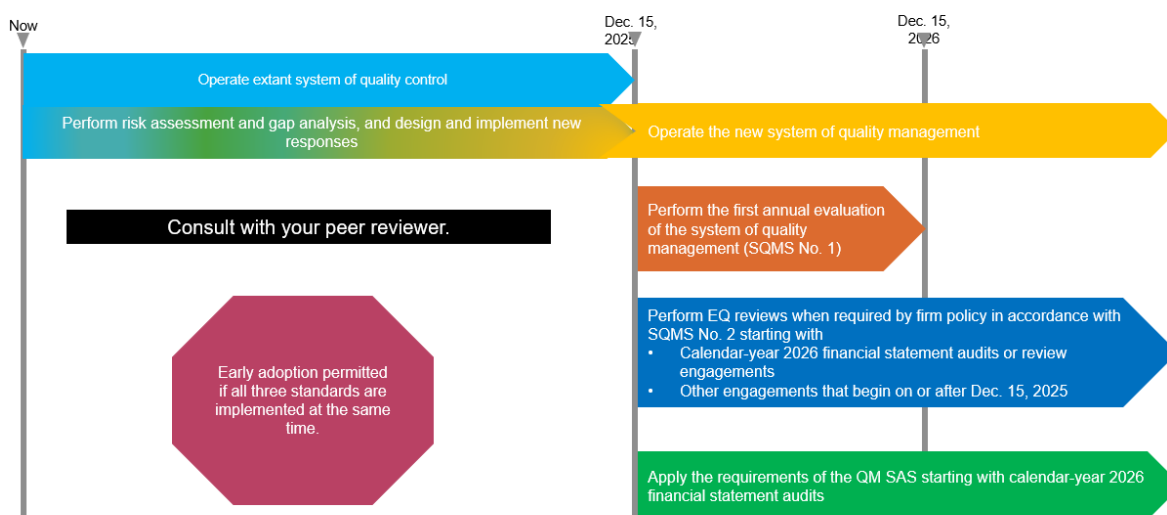
QC sec. 10 — Elements of quality control	NEW SQMS No. 1 — Components of quality management	Notable differences and enhancements
		<ul style="list-style-type: none"> • Less prescription than in extant standard
Acceptance and continuance of client relationships and specific engagements	Acceptance and continuance of client relationships and specific engagements	<ul style="list-style-type: none"> • New requirement that emphasizes a firm's ability to perform an engagement in accordance with professional standards • Expanded emphasis on obtaining information about the nature and circumstances of an engagement along with the integrity and ethical values of the client • New requirement to ensure that financial and operational priorities do not inappropriately influence acceptance and continuance judgments
Engagement performance	Engagement performance	<ul style="list-style-type: none"> • New requirement that engagement teams understand and fulfill their professional responsibilities, including an engagement partner's overall responsibility for managing and achieving quality and being sufficiently and appropriately involved throughout an engagement • Revised requirement related to the direction and supervision of engagement teams and the review of work based on an engagement's nature and circumstances and the resources assigned or made available to the engagement team • New requirement related to the exercise of professional judgment and professional skepticism, when appropriate, by engagement teams • Various requirements related to engagement quality reviews (formerly engagement quality control reviews) have been relocated within SQMS No. 1 or moved to SQMS No. 2
QC sec. 10 — Elements of quality control	NEW SQMS No. 1 — Components of quality management	Notable differences and enhancements
Human resources	Resources	<ul style="list-style-type: none"> • New requirements related to technological and intellectual resources involved in a firm's SQM and the performance of engagements • New requirement that firms hire, develop and retain personnel with the competence and capabilities to perform activities or carry out responsibilities within the SQM • New requirement that personnel demonstrate commitment to quality, be competent to perform their roles and be held accountable through

QC sec. 10 — Elements of quality control	NEW SQMS No. 1 — Components of quality management	Notable differences and enhancements
		<p>evaluations, compensation, promotion and other incentives</p> <ul style="list-style-type: none"> • New requirement that firms obtain individuals from external sources (e.g., a network firm, another network, or a service provider) when the firm does not have sufficient or appropriate personnel to operate the SQM or perform engagements
No equivalent element in QC sec. 10	Information and communication (New!)	<ul style="list-style-type: none"> • New component requiring firms to establish information and communication processes that support the SQM • New requirement that the firm's information system incorporate reliable information from internal and external sources needed to support the SQM • New requirement that the firm's culture reinforce the responsibility of personnel for the sharing of information with one another and the firm • New requirement that information be exchanged throughout the firm so <ul style="list-style-type: none"> — personnel and engagement teams can understand and perform activities related to the SQM and engagement — personnel and engagement teams communicate information to the firm related to the SQM • New requirement that information be communicated by the firm <ul style="list-style-type: none"> — to or within the firm's network or service providers to enable them to fulfill their responsibilities — to external parties as required by law, regulation or professional standards for those parties to understand the SQM
Monitoring	The monitoring and remediation process	<ul style="list-style-type: none"> • Expanded and enhanced guidance throughout this component • New emphasis on the firm's remediation process • New requirement that firms establish policies or procedures that address the objectivity of those performing monitoring activities • Introduction of the term "findings" in relation to information about the SQM that indicates a deficiency may exist • New requirements that the firm evaluate the severity and pervasiveness of identified deficiencies using a root cause analysis and design remedial actions that are responsive to the root cause analysis

Effective date

Systems of quality management in compliance with SQMS No. 1 are required to be designed and implemented by Dec. 15, 2025. Evaluation of the system of quality management required by SQMS No. 1 is required to be performed within one year following Dec. 15, 2025.

Understanding effective dates



- December 2025 may seem really far off, but there's a reason the implementation period is so long — to allow you enough time to get the new system in place. It may be a big change, but done bit by bit over the next three years, it's manageable.
- The firm may start operation of all the new and revised policies or procedures at the effective date, or the firm may pilot test one or more of the components of the new SQM prior to the effective date. The pilot test may be conducted by the entire firm or by a selection of engagements teams. The SQM would not be considered "in operation" until the firm has formally implemented and commenced operation of the new SQM in its entirety. This means that you can start to make changes — for example, implementing the new risk assessment process — and ask your peer reviewer to give you feedback on those changes. But you wouldn't get a matter for further consideration regarding those changes because your peer reviewer won't be measuring your system against the new standards until the firm formally implements them (which has to be no later than Dec. 15, 2025).

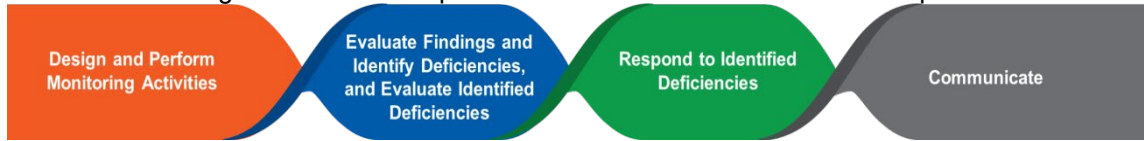
Resources

The standards and resources to help you implement the standards can be found [here](#).

What should I be doing now?

1. Understand the standards	<ul style="list-style-type: none"> • Gain an overall understanding of the standards. The AICPA has developed the following resources to help you: <ul style="list-style-type: none"> — Executive summaries of the standards — Comparison of extant AICPA quality control standards and new AICPA quality management standards — AICPA webcasts — AICPA practice aids — CPE courses
2. Develop a plan for implementation	<ul style="list-style-type: none"> • Determine who within the firm will take ownership and lead the implementation process <ul style="list-style-type: none"> — Note that SQMS No. 1 requires that the firm assign ultimate responsibility and authority for the SQM to the firm's managing partner and assign operational responsibility for the SQM, and operational responsibility for specific aspects of the SQM, to appropriate individuals within the firm. • Determine the resources — human, intellectual and technical — needed for successful implementation. • Talk with your peer reviewer about your implementation plan. Note that your peer reviewer, to maintain independence, cannot be part of your SQM — just like you can't be part of your client's system of internal control over financial reporting (ICFR) — but may offer advice. • Determine how information will be documented. • Develop a timeline. <ul style="list-style-type: none"> — Your firm may take a phased approach to implementation, building up to the effective date. For example, you may start by designing and implementing policies or procedures for one component at a time and begin operating those policies or procedures at various stages before the effective date. <ul style="list-style-type: none"> ○ This phased approach may lessen the impact of many changes all at once. ○ Although your firm may implement policies or procedures before the effective date, the firm would not be considered to be "early adopting" SQMS No. 1 because only a portion of the new SQM has been implemented. ○ The appendix to this document includes an example timeline, reflecting a phased approach to performing the risk assessment, gap analysis, and designing/implementing responses for each component, and then at the end reevaluating the risk assessment, gap analysis, and the responses.

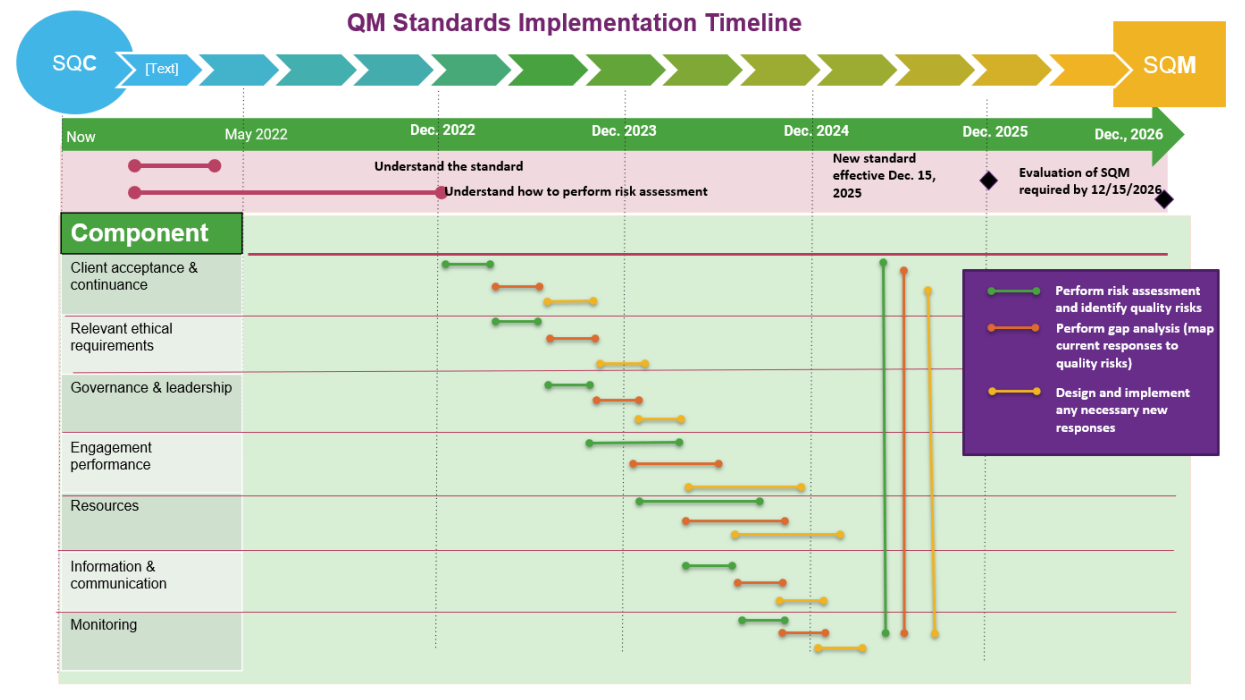
<p>3. Perform risk assessment</p>	<ul style="list-style-type: none"> Establish the quality objectives required by the standard. <ul style="list-style-type: none"> You may find it helpful to break the quality objectives into sub-objectives. The quality objectives are sufficiently comprehensive that it is unlikely that you would find it necessary to establish additional quality objectives. Identify and assess quality risks. The following graphic explains how to identify quality risks: <p style="text-align: center;">Risk Assessment Process: Identify and Assess Quality Risks</p> <div style="text-align: center;"> <pre> graph TD A[Understand the factors (that is, conditions, events, circumstances, actions or inactions) that may adversely affect the achievement of the quality objective.] --> B[Consider how, and the degree to which, the factors may adversely affect the achievement of the quality objective.] B --> C[Assessed quality risk: A risk that has a reasonable possibility of: (i) Occurring; and (ii) Individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives.] </pre> </div> <ul style="list-style-type: none"> The assessment of identified quality risks does not require formal ratings or scores. Risk assessment is iterative, and as such, quality risks will be revisited throughout the process of implementation and maintenance of the SQM. The AICPA is exploring technology solutions to help you implement and manage your SQM, including tools to help identify and document quality risks and related responses. You may find it helpful to identify and assess quality risks one component at a time and then revisit the components throughout the process. Consider any information the firm may have related to current quality risks (e.g., information provided to insurance carriers). Consider the inverse of the quality objectives as quality risks (that is, the risk of not achieving the quality objective).
<p>4. Perform a gap analysis</p>	<ul style="list-style-type: none"> Based on the quality risks identified, map current controls — or, as SQMS No. 1 calls them, “responses to quality risks.” Identify quality risks without appropriate responses as well as any current responses that do not map to a quality risk. Take note of the specified responses within SQMS No. 1 that the firm is required to design and implement.
<p>5. Design and implement new responses for those risks that are not addressed</p>	<ul style="list-style-type: none"> Helpful resources for identifying potential responses to quality risks include AICPA practice aids, third-party providers of quality management materials, and peer reviewers, among others. You may decide that current responses that do not map to a risk are no longer necessary.

<p>6. Prepare documentation</p>	<ul style="list-style-type: none"> • The firm is not required to document the consideration of every condition, event, circumstance, action or inaction that may give rise to a quality risk. The documentation of the quality risks may include the reasons for the assessment given to the quality risks, that is, the considered occurrence and effect on the achievement of the quality objectives. • Documentation of the SQM will likely differ depending on the firm's complexity. <ul style="list-style-type: none"> — A less complex firm may not need to have granular documentation, such as a matrix, that indicates the quality objective, the related quality risk(s) and the related responses to address those quality risks. This is because it may be obvious how the quality risks relate to the quality objectives or how the responses address the quality risks. In these circumstances, the firm's 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. — 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. This may become important when the volume of quality risks and related responses creates challenges in being able to identify which quality risks relate to which quality objectives, and which responses address which quality risks.
<p>7. Establish process for ongoing monitoring (adjusting for changes) and remediation</p>	<ul style="list-style-type: none"> • The monitoring and remediation process can be broken down into four aspects:  • Factors you are required to take into consideration when establishing monitoring activities are: <ul style="list-style-type: none"> — The reasons for the assessments given to the quality risks — The design of the responses — The design of the firm's risk assessment process and monitoring and remediation process — Changes in the SQM — Previous monitoring activity • The "information and communication" component plays an enabling role by providing ongoing information relevant to the SQM.
<p>8. Evaluate new system</p>	<p>Tips:</p> <ul style="list-style-type: none"> • A new requirement in SQMS No. 1 is for a firm leader to evaluate, at least annually, whether the SQM provides reasonable assurance that the objectives of the SQM are being met. The effective date for this evaluation is within one year of Dec. 15, 2025. • Firm leadership is required to make this evaluation even in a peer review year. It is comparable to management's assertion about its system of ICFR, which remains management's responsibility regardless of whether an audit of an entity's system of ICFR is performed.

Appendix: Example timelines of implementation

Timeline example 1:

This example shows a phased approach to implementing the QM standards by considering one component at a time, and then at the end, reconsidering the risk assessment, gap analysis and responses to quality risks.



Timeline example 2:

This timeline demonstrates that the timing of a firm's peer review does not change the implementation timeline. By beginning in 2022, you allow sufficient time for implementation prior to the effective date of the standards.

Example firm scenarios:	2022	2023	2024	2025	2026
Firm A — Peer review during 2022 and 2025	<ul style="list-style-type: none"> Understand the standards Develop a plan for implementation Consider quality objectives and if you need to create others 	<ul style="list-style-type: none"> Perform risk assessment, one component at a time Perform gap analysis, one component at a time As each component is completed, revisit prior components Design and implement new responses for those risks that are not addressed At various points in the process, provide an update to your peer reviewer 	<ul style="list-style-type: none"> Continue risk assessment, gap analysis and design and implementation of new responses until all components have been addressed Review risk assessment and gap analysis at the overall system level and consider if any additional responses are needed 	<ul style="list-style-type: none"> Document the SQM Determine the process for ongoing monitoring (adjusting for changes) and remediation Understand how to perform root cause analysis Pre-effective date — implement new processes (on a test basis), and evaluate and adjust as necessary Fully implement SQMS No. 1 by Dec. 15, 2025 At various points in the process, provide an update to your peer reviewer 	<ul style="list-style-type: none"> Operate SQM in accordance with SQMS No. 1 Evaluate SQM by Dec. 15, 2026
Firm B — Peer review during 2023 and 2026					
Firm C — Peer review during 2024 and 2027					
Firm D — Peer review during 2025 and 2028					

Tips:

- No matter when a firm's peer review occurs, don't delay starting the implementation of the QM standards! December 2025 may seem a long way off, but starting now will provide sufficient time for a smooth and successful transition of your quality control system to your quality management system. Delaying your implementation efforts is not advisable.
- Peer review is performed based on standards in effect or adopted early by the firm. For system reviews before Dec. 15, 2025, the peer review would be based on QC section 10 (unless the firm has fully adopted SQMS No. 1). A phased approach to implementation does not mean SQMS No. 1 has been fully adopted — rather, it is only after all phases are complete that a firm would determine that SQMS No. 1 has been fully adopted.
- You may find it helpful to consult with your peer reviewer at various points in the process: when you develop your implementation plan, after your first “round” of risk assessment and gap analysis, when you begin to design and implement responses, and in deciding the nature and extent of documentation of your SQM. Remember that your peer reviewer, to maintain independence, cannot be part of your SQM — just like you can't be part of your client's system of ICFR — but can advise you.

***Statement on
Quality Management Standards***

June 2022

1

Issued by the Auditing Standards Board

A Firm's System of Quality Management

(AICPA, Professional Standards, QM sec. 10; supersedes Statement on Quality Control Standards [SQCS] No. 8, A Firm's System of Quality Control, as amended [AICPA, Professional Standards, QC sec. 10])

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¹ All ET sections can be found in AICPA *Professional Standards*.

Conduct requires compliance with these standards when firms perform auditing and accounting services for a nonissuer.

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Statement on Quality Management Standards No. 1, *A Firm's System of Quality Management*

Introduction

Scope of This Statement on Quality Management Standards

1. This Statement on Quality Management Standards (SQMS) deals with a firm's responsibilities to design, implement, and operate a system of quality management for its accounting and auditing practice.
2. Engagement quality reviews form part of the firm's system of quality management and
 - a. this SQMS addresses the firm's responsibility to establish policies or procedures addressing engagements that are required to be subject to engagement quality reviews.
 - b. SQMS No. 2, *Engagement Quality Reviews*, deals with the appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review.
3. Other professional standards include requirements for engagement partners and other engagement team members regarding quality management at the engagement level. For example, Statement on Auditing Standards (SAS) No. 146, *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*, deals with the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial statements and the related responsibilities of the engagement partner. Other professional standards, including AT-C section 105, *Concepts Common to All Attestation Engagements*,[‡] and AR-C section 60, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services*,[†] also establish requirements for the engagement partner for the management of quality at the engagement level.
4. This SQMS is to be read in conjunction with the AICPA Code of Professional Conduct (AICPA code) and other relevant ethical requirements. Law, regulation, or relevant ethical requirements may establish responsibilities for the firm's management of quality beyond those described in this SQMS. (Ref: par. A1)
5. This SQMS applies to audit and attestation engagements performed by a firm in accordance with *Government Auditing Standards*. This SQMS does not apply to government audit organizations. Instead, those government audit organizations are subject to the quality control and assurance requirements of *Government Auditing Standards*.
6. This SQMS applies to all firms that perform any engagement included in a firm's accounting and auditing practice. The system of quality management that is established in accordance with the requirements of this SQMS enables the consistent performance by the firm of all such engagements.

[‡] All AT-C sections can be found in AICPA *Professional Standards*.

[†] All AR-C sections can be found in AICPA *Professional Standards*.

The Firm's System of Quality Management

7. A system of quality management operates in a continual and iterative manner and is responsive to changes in the nature and circumstances of the firm and its engagements. It does not operate in a linear manner. However, for the purposes of this SQMS, a system of quality management addresses the following eight components: (Ref: par. A2)

- a. The firm's risk assessment process
- b. Governance and leadership
- c. Relevant ethical requirements
- d. Acceptance and continuance of client relationships and specific engagements
- e. Engagement performance
- f. Resources
- g. Information and communication
- h. The monitoring and remediation process

8. This SQMS requires the firm to apply a risk-based approach in designing, implementing, and operating the components of the system of quality management in an interconnected and coordinated manner such that the firm proactively manages the quality of engagements performed by the firm. (Ref: par. A3)

9. The risk-based approach is embedded in the requirements of this SQMS through the following:

- a. *Establishing quality objectives.* The quality objectives established by the firm consist of objectives in relation to the components of the system of quality management that are to be achieved by the firm. The firm is required to establish the quality objectives specified by this SQMS and any additional quality objectives considered necessary by the firm to achieve the objectives of the system of quality management.
- b. *Identifying and assessing risks to the achievement of the quality objectives* (referred to in this SQMS as *quality risks*). The firm is required to identify and assess quality risks to provide a basis for the design and implementation of responses.
- c. *Designing and implementing responses to address the quality risks.* The nature, timing, and extent of the firm's responses to address the quality risks are based on, and responsive to, the reasons for the assessments given to the quality risks.

10. This SQMS requires that, at least annually, the individual or individuals assigned ultimate responsibility and accountability for the system of quality management, on behalf of the firm, evaluate the system of quality management and conclude whether the system of quality management provides the firm with reasonable assurance that the objectives of the system, stated in paragraph 15a–b, are being achieved. (Ref: par. A4)

Scalability

11. In applying a risk-based approach, the firm is required to take into account

- a. the nature and circumstances of the firm, and

- b.* the nature and circumstances of the engagements performed by the firm.

Accordingly, the design of the firm's system of quality management — in particular, the complexity and formality of the system — will vary. For example, a firm that performs different types of engagements for a wide variety of entities, such as audits of specialized industries or group audits for multinational entities, will likely need to have a more complex and formalized system of quality management and supporting documentation than a firm that performs only reviews of financial statements or compilation engagements.

Networks and Service Providers

12. This SQMS addresses the firm's responsibilities when the firm

- a.* belongs to a network, and the firm complies with network requirements or uses network services in the system of quality management or in performing engagements, or
- b.* uses resources from a service provider in the system of quality management or in performing engagements.

Even when the firm complies with network requirements or uses network services or resources from a service provider, the firm is responsible for its system of quality management.

Authority of This SQMS

13. Paragraph 15 contains the objective of the firm in following this SQMS. This SQMS contains the following: (Ref: par. A5)

- a.* Requirements designed to enable the firm to meet the objective in paragraph 15 (Ref: par. A6)
- b.* Related guidance in the form of application and other explanatory material (Ref: par. A7)
- c.* Introductory material that provides context relevant to a proper understanding of this SQMS
- d.* Definitions (Ref: par. A8)

Effective Date

14. Systems of quality management in compliance with this SQMS are required to be designed and implemented by December 15, 2025, and the evaluation of the system of quality management required by paragraphs 54–55 is required to be performed within one year following December 15, 2025.

Objective

15. The objective of the firm is to design, implement, and operate a system of quality management for engagements performed by the firm in its accounting and auditing practice that provides the firm with reasonable assurance that

- a.* the firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements and conduct engagements

in accordance with such standards and requirements, and

b. engagement reports issued by the firm are appropriate in the circumstances.

16. The public interest is served by the consistent performance of quality engagements. The design, implementation, and operation of the system of quality management enables the consistent performance of quality engagements by providing the firm with reasonable assurance that the objectives of the system of quality management, stated in paragraph 15*a–b*, are achieved. Quality engagements are achieved through planning and performing engagements and reporting on them in accordance with professional standards and applicable legal and regulatory requirements. Achieving the objectives of those standards and complying with the requirements of applicable law or regulation involves exercising professional judgment and, when applicable to the type of engagement, maintaining professional skepticism.

Definitions

17. For purposes of the SQMSs, the following terms have the meanings attributed as follows:

Accounting and auditing practice. A practice that performs engagements covered by this SQMS, which are audit, attestation, review, compilation, 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. (Ref: par. A9)

Deficiency in the firm’s system of quality management (referred to as *deficiency* in this SQMS). This exists when (Ref: par. A10 and A174–A175)

- a quality objective required to achieve the objective of the system of quality management is not established;
- a quality risk, or combination of quality risks, is not identified or properly assessed; (Ref: par. A11)
- a response, or combination of responses, does not reduce to an acceptably low level the likelihood of a related quality risk occurring because the responses are not properly designed, implemented, or operating effectively; or
- another aspect of the system of quality management is absent, or not properly designed, implemented, or operating effectively, such that a requirement of this SQMS has not been addressed. (Ref: par. A12–A13)

Engagement documentation. The record of work performed, results obtained, and conclusions the practitioner reached (terms such as *working papers* or *work papers* are sometimes used).

Engagement partner. The partner or other individual appointed by the firm who is responsible for the engagement and its performance, and for the report that is issued on

[†] All ET sections can be found in AICPA *Professional Standards*.

behalf of the firm, and who, when required, has the appropriate authority from a professional, legal, or regulatory body.

Engagement quality review. An objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon performed by the engagement quality reviewer and completed before the engagement report is released.

Engagement quality reviewer. A partner, other individual in the firm, or an external individual appointed by the firm to perform the engagement quality review.

Engagement team. All partners and staff performing the engagement, and any other individuals who perform procedures on the engagement, excluding an external specialist¹ and internal auditors who provide direct assistance on an engagement. (Ref: par. A14)

External inspections. Inspections or investigations, undertaken by an external oversight authority, related to the firm's system of quality management or engagements performed by the firm. (Ref: par. A15)

Findings (in relation to a system of quality management). Information about the design, implementation, and operation of the system of quality management that has been accumulated from the performance of monitoring activities, external inspections, and other relevant sources, which indicates that one or more deficiencies may exist. (Ref: par. A16–A18)

Firm. A form of organization permitted by law or regulation whose characteristics conform to resolutions of the Council of the AICPA and that is engaged in public practice. (Ref: par. A19)

Inspection. Inspection is an evaluation of the adequacy of aspects of the firm's quality management policies and procedures, its personnel's understanding of those policies and procedures, and the extent of the firm's compliance with them.

Network. As defined in "Definitions" (ET sec. 0.400) in the AICPA code, an association of entities that includes one or more firms. (Ref: par. A20)

Network firm. As defined in "Definitions" (ET sec. 0.400) in the AICPA code, a firm or other entity that belongs to a network. References to a *network firm* are to be read hereafter as "another firm or entity that belongs to the same network as the firm."

Partner. Any individual with authority to bind the firm with respect to the performance of a professional services engagement. For purposes of this definition, *partner* may include an employee with this authority who has not assumed the risks and benefits of ownership. Firms might use different titles to refer to individuals with this authority.

Personnel. Partners and staff in the firm. (Ref: par. A21–A22)

¹ Paragraph .06 of AU-C section 620, *Using the Work of an Auditor's Specialist*, defines the term *auditor's specialist*.

Professional judgment. The application of relevant training, knowledge, and experience, within the context of professional standards, in making informed decisions about the courses of action that are appropriate in the design, implementation, and operation of the firm's system of quality management.

Professional standards. Standards promulgated by the ASB or 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 or other standard-setting bodies that set auditing and attest standards applicable to the engagement being performed and relevant ethical requirements.

Quality objectives. The desired outcomes in relation to the components of the system of quality management to be achieved by the firm.

Quality risk. A risk that has a reasonable possibility of

- occurring, and
- individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives.

Reasonable assurance. In the context of the SQMSs, a high, but not absolute, level of assurance.

Relevant ethical requirements. Principles of professional ethics and ethical requirements to which the firm, engagement team, engagement quality reviewer, and other firm personnel are subject when undertaking engagements in the firm's accounting and auditing practice that consist of the AICPA code together with rules of applicable state boards of accountancy and applicable regulatory agencies that are more restrictive. (Ref: par. A23–A24 and A64)

Response (in relation to a system of quality management). Policies or procedures designed and implemented by the firm to address one or more quality risks. (Ref: par. A25–A27 and A52)

- *Policies* are statements of what should, or should not, be done to address quality risks. Such statements may be documented, explicitly stated in communications, or implied through actions and decisions.
- *Procedures* are actions to implement policies.

Service provider (in the context of this SQMS). An individual or organization external to the firm that provides a resource that is used in the system of quality management or in performing engagements. Service providers exclude the firm's network, other network firms, or other structures or organizations in the network. (Ref: par. A28 and A110)

Staff. Professionals, other than partners, including any specialists the firm employs.

System of quality management. A system designed, implemented, and operated by a firm to provide the firm with reasonable assurance that

- a. the firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
- b. engagement reports issued by the firm are appropriate in the circumstances.

Requirements

Applying and Complying With Relevant Requirements

18. The firm should comply with each requirement of this SQMS unless the requirement is not relevant to the firm because of the nature and circumstances of the firm or its engagements. (Ref: par. A29)

19. The individual or individuals assigned ultimate responsibility and accountability for the firm's system of quality management, and the individual or individuals assigned operational responsibility for the firm's system of quality management, should have an understanding of this SQMS, including the application and other explanatory material, to understand the objective of this SQMS and to apply its requirements properly.

System of Quality Management

20. The firm should design, implement, and operate a system of quality management. In doing so, the firm should exercise professional judgment, taking into account the nature and circumstances of the firm and its engagements. The governance and leadership component of the system of quality management establishes the environment that supports the design, implementation, and operation of the system of quality management. (Ref: par. A30–A31)

Responsibilities

21. The firm should assign (Ref: par. A32–A36)

- a. ultimate responsibility and accountability for the system of quality management to the firm's CEO or the firm's managing partner (or equivalent) or, if appropriate, the firm's managing board of partners (or equivalent);
- b. operational responsibility for the system of quality management; and
- c. operational responsibility for specific aspects of the system of quality management, including
 - i. compliance with independence requirements, and (Ref: par. A37)
 - ii. the monitoring and remediation process.

22. In assigning the roles in paragraph 21, the firm should determine that the individual or individuals (Ref: par. A38)

- a. have the appropriate experience, knowledge, influence, and authority within the firm and sufficient time to fulfill their assigned responsibility, and (Ref: par. A39)

b. understand their assigned roles and that they are accountable for fulfilling them.

23. The firm should determine that the individual or individuals assigned operational responsibility for the system of quality management, compliance with independence requirements, and the monitoring and remediation process have a direct line of communication to the individual or individuals assigned ultimate responsibility and accountability for the system of quality management.

The Firm's Risk Assessment Process

24. The firm should design and implement a risk assessment process to establish quality objectives, identify and assess quality risks, and design and implement responses to address the quality risks. (Ref: par. A40–A42)

25. The firm should establish the quality objectives specified by this SQMS and any additional quality objectives considered necessary by the firm to achieve the objectives of the system of quality management. (Ref: par. A43–A45)

26. The firm should identify and assess quality risks to provide a basis for the design and implementation of responses. In doing so, the firm should do the following:

- a.* Obtain an understanding of the conditions, events, circumstances, actions, or inactions that may adversely affect the achievement of the quality objectives, including the following: (Ref: par. A46–A48)
 - i.* With respect to the nature and circumstances of the firm, those relating to
 - (1) the complexity and operating characteristics of the firm;
 - (2) the strategic and operational decisions and actions, business processes, and business model of the firm;
 - (3) the characteristics and management style of leadership;
 - (4) the resources of the firm, including the resources provided by service providers;
 - (5) law, regulation, professional standards, and the environment in which the firm operates; and
 - (6) in the case of a firm that belongs to a network, the nature and extent of the network requirements and network services, if any
 - ii.* With respect to the nature and circumstances of the engagements performed by the firm, those relating to
 - (1) the types of engagements performed by the firm and the reports to be issued, and
 - (2) the types of entities for which such engagements are undertaken
- b.* Take into account how, and the degree to which, the conditions, events, circumstances, actions, or inactions in paragraph 26*a* may adversely affect the achievement of the quality objectives. (Ref: par. A49–A50)

27. The firm should design and implement responses to address the quality risks in a manner that is based on, and responsive to, the reasons for the assessments given to the quality risks. The

firm's responses should include the responses specified in paragraph 35. However, the responses specified in paragraph 35 alone are not sufficient to achieve the objectives of the system of quality management. (Ref: par. A51–A53)

28. The firm should establish policies or procedures that are designed to identify information that indicates additional quality objectives, or additional or modified quality risks or responses, are needed due to changes in the nature and circumstances of the firm or its engagements. If such information is identified, the firm should consider the information and, when appropriate, (Ref: par. A54–A55)

- a.* establish additional quality objectives or modify additional quality objectives previously established by the firm; (Ref: par. A56)
- b.* identify and assess additional quality risks, modify the quality risks, or reassess the quality risks; or
- c.* design and implement additional responses or modify the responses.

Governance and Leadership

29. The firm should establish the following quality objectives that address the firm's governance and leadership, which establishes the environment that supports the system of quality management:

- a.* The firm demonstrates a commitment to quality through a culture that exists throughout the firm, which recognizes and reinforces the following: (Ref: par. A57–A58)
 - i.* The firm's role in serving the public interest by consistently performing quality engagements
 - ii.* The importance of professional ethics, values, and attitudes
 - iii.* The responsibility of all personnel for quality relating to the performance of engagements or activities within the system of quality management and their expected behavior
 - iv.* The importance of quality in the firm's strategic decisions and actions, including the firm's financial and operational priorities
- b.* Leadership is responsible and accountable for quality. (Ref: par. A59)
- c.* Leadership demonstrates a commitment to quality through its actions and behaviors. (Ref: par. A60)
- d.* The organizational structure and assignment of roles, responsibilities, and authority is appropriate to enable the design, implementation, and operation of the firm's system of quality management. (Ref: par. A32–A35 and A61)
- e.* Resource needs, including financial resources, are planned for, and resources are obtained, allocated, or assigned in a manner that is consistent with the firm's commitment to quality. (Ref: par. A62–A63)

Relevant Ethical Requirements

30. The firm should establish the following quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to independence: (Ref: par. A64–A66 and A68)

- a.* The firm and its personnel
 - i. understand the relevant ethical requirements to which the firm and the firm's engagements are subject, and (Ref: par. A23)
 - ii. fulfill their responsibilities in relation to the relevant ethical requirements to which the firm and the firm's engagements are subject.
- b.* Others, including the network, network firms, individuals in the network or network firms, or service providers, who are subject to the relevant ethical requirements to which the firm and the firm's engagements are subject
 - i. understand the relevant ethical requirements that apply to them, and (Ref: par. A23 and A67)
 - ii. fulfill their responsibilities in relation to the relevant ethical requirements that apply to them. (Ref: par. A68)

Acceptance and Continuance of Client Relationships and Specific Engagements

31. The firm should establish the following quality objectives that address the acceptance and continuance of client relationships and specific engagements:

- a.* Judgments by the firm about whether to accept or continue a client relationship or specific engagement are appropriate based on the following:
 - i. Information obtained 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) that is sufficient to support such judgments (Ref: par. A69–A74)
 - ii. The firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements (Ref: par. A75–A76)
- b.* The financial and operational priorities of the firm do not lead to inappropriate judgments about whether to accept or continue a client relationship or specific engagement. (Ref: par. A77–A78)

Engagement Performance

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)

- b.* The nature, timing, and extent of direction and supervision of engagement teams and review of the work performed is appropriate based on the nature and circumstances of the engagements and the resources assigned or made available to the engagement teams; the work performed by less experienced engagement team members is directed, supervised, and reviewed by suitably experienced engagement team members. (Ref: par. A80–A81)
- c.* Engagement teams exercise appropriate professional judgment and, when applicable to the type of engagement, maintain professional skepticism. (Ref: par. A82)
- d.* Consultation on difficult or contentious matters is undertaken, and the conclusions agreed to are implemented. (Ref: par. A83–A85)
- e.* Differences of opinion within the engagement team, or between the engagement team and the engagement quality reviewer or individuals performing activities within the firm’s system of quality management, are brought to the attention of the firm and resolved. (Ref: par. A86)
- f.* Engagement documentation is assembled on a timely basis after the date of the engagement report and is appropriately maintained and retained to meet the needs of the firm and comply with law, regulation, relevant ethical requirements, and professional standards. (Ref: par. A87–A89)

Resources

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)

Human Resources

- a.* Personnel are hired, developed, and retained and have the competence and capabilities to (Ref: par. A92–A94)
 - i.* consistently perform quality engagements, including having knowledge or experience relevant to the engagements the firm performs, or
 - ii.* perform activities or carry out responsibilities in relation to the operation of the firm’s system of quality management.
- b.* Personnel demonstrate a commitment to quality through their actions and behaviors, develop and maintain the appropriate competence to perform their roles, and are held accountable or recognized through timely evaluations, compensation, promotion, and other incentives. (Ref: par. A95–A97)
- c.* Individuals are obtained from external sources (that is, the network, another network firm, or a service provider) when the firm does not have sufficient or appropriate personnel to enable the operation of firm’s system of quality management or performance of engagements. (Ref: par. A98)

- d. Engagement team members, including an engagement partner, who have appropriate competence and capabilities to consistently perform quality engagements, including being given sufficient time, are assigned to each engagement. (Ref: par. A92–A93 and A99–A101)
- e. Individuals who have appropriate competence and capabilities, including sufficient time, to perform such activities are assigned to perform activities within the system of quality management.

Technological Resources

- f. Appropriate technological resources are obtained or developed, implemented, maintained, and used to enable the operation of the firm’s system of quality management and the performance of engagements. (Ref: par. A102–A106 and A109)

Intellectual Resources

- g. Appropriate intellectual resources are obtained or developed, implemented, maintained, and used to enable the operation of the firm’s system of quality management and the consistent performance of quality engagements, and such intellectual resources are consistent with professional standards and applicable legal and regulatory requirements, where applicable. (Ref: par. A107–A109)

Service Providers

- h. Human, technological, or intellectual resources from service providers are appropriate for use in the firm’s system of quality management and in performing engagements, taking into account the quality objectives in paragraph 33d–g. (Ref: par. A110–A115)

Information and Communication

34. The firm should establish the following quality objectives that address obtaining, generating, or using information regarding the system of quality management and communicating information within the firm and to external parties on a timely basis to enable the design, implementation, and operation of the system of quality management: (Ref: par. A116)

- a. The information system identifies, captures, processes, and maintains relevant and reliable information that supports the system of quality management, whether from internal or external sources. (Ref: par. A117–A119)
- b. The culture of the firm recognizes and reinforces the responsibility of personnel to exchange information with the firm and with one another. (Ref: par. A120)
- c. Relevant and reliable information is exchanged throughout the firm and with engagement teams, including the following: (Ref: par. A120)
 - i. Information is communicated to personnel and engagement teams, and the nature, timing, and extent of the information is sufficient to enable them to understand and carry out their responsibilities relating to performing activities within the system of quality management or engagements.
 - ii. Personnel and engagement teams communicate information to the firm when performing activities within the system of quality management or engagements.

- d.* Relevant and reliable information is communicated to external parties, including the following:
 - i.* Information is communicated by the firm to or within the firm's network or to service providers, if any, enabling the network or service providers to fulfill their responsibilities relating to the network requirements or network services or resources provided by them. (Ref: par. A121)
 - ii.* Information is communicated externally when required by law, regulation, or professional standards or to support external parties' understanding of the system of quality management. (Ref: par. A122–A123)

Specified Responses

35. In designing and implementing responses in accordance with paragraph 27, the firm should include the following responses: (Ref: par. A124)

- a.* The firm establishes policies or procedures for
 - i.* identifying, evaluating, and addressing threats to compliance with the relevant ethical requirements. (Ref: par. A125)
 - ii.* identifying, communicating, evaluating, and reporting of any breaches of the relevant ethical requirements and appropriately responding to the causes and consequences of the breaches in a timely manner. (Ref: par. A126–A127)
- b.* The firm obtains, at least annually, a documented confirmation of compliance with independence requirements from all personnel required by relevant ethical requirements to be independent.
- c.* The firm establishes policies or procedures for receiving, investigating, and resolving complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements or noncompliance with the firm's policies or procedures established in accordance with this SQMS. (Ref: par. A128–A129)
- d.* The firm establishes policies or procedures that address the following circumstances:
 - i.* The firm becomes aware of information subsequent to accepting or continuing a client relationship or specific engagement that would have caused it to decline the client relationship or specific engagement had that information been known prior to accepting or continuing the client relationship or specific engagement. (Ref: par. A130–A131)
 - ii.* The firm is obligated by law or regulation to accept a client relationship or specific engagement. (Ref: par. A132–A133)
- e.* The firm establishes policies or procedures that (Ref: par. A134–A137)
 - i.* address when it is appropriate to communicate with external parties about the firm's system of quality management, and (Ref: par. A138–A140)
 - ii.* address the information to be provided when communicating externally about the firm's system of quality management, including the nature, timing, and extent

and appropriate form of communication. (Ref: par. A141–A142)

- f.* The firm establishes policies or procedures that address engagement quality reviews in accordance with SQMS No. 2 and requires an engagement quality review for the following:
 - i. Audits or other engagements for which an engagement quality review is required by law or regulation (Ref: par. A143)
 - ii. Audits or other engagements for which the firm determines that an engagement quality review is an appropriate response to address one or more quality risks (Ref: par. A144–A147)

Monitoring and Remediation Process

- 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.
 - b.* take appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis.

Designing and Performing Monitoring Activities

- 37.** The firm should design and perform monitoring activities to provide a basis for the identification of deficiencies.
- 38.** In determining the nature, timing, and extent of the monitoring activities, the firm should take the following into account: (Ref: par. A149–A152)
 - a.* The reasons for the assessments given to the quality risks
 - b.* The design of the responses
 - c.* The design of the firm’s risk assessment process and monitoring and remediation process (Ref: par. A153–A155)
 - d.* Changes in the system of quality management (Ref: par. A156)
 - e.* The results of previous monitoring activities, whether previous monitoring activities continue to be relevant in evaluating the firm’s system of quality management and whether remedial actions to address previously identified deficiencies were effective (Ref: par. A157–A158)
 - f.* Other relevant information, including complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements or noncompliance with the firm’s policies or procedures established in accordance with this SQMS, information from external inspections, and information from service providers (Ref: par. A159–A161)
- 39.** The firm should include the inspection of completed engagements in its monitoring activities and should determine which engagements and engagement partners to select. In doing so, the firm should (Ref: par. A150 and A162–A166)
 - a.* take into account the matters in paragraph 38;

- b. consider the nature, timing, and extent of other monitoring activities undertaken by the firm and the engagements and engagement partners subject to such monitoring activities; (Ref: par. A167–A168) and
- c. select at least one completed engagement for each engagement partner on a cyclical basis determined by the firm.

40. The firm should establish policies or procedures that

- a. require the individuals performing the monitoring activities to have the competence and capabilities, including sufficient time, to perform the monitoring activities effectively; and
- b. address the objectivity of the individuals performing the monitoring activities, based on the premise that objectivity is enhanced when the engagement team members or the engagement quality reviewer of an engagement are not involved in performing any monitoring activities related to that engagement. (Ref: par. A169–A173)

Evaluating Findings and Identifying Deficiencies

41. The firm should evaluate findings to determine whether deficiencies exist, including in the monitoring and remediation process. (Ref: par. A174–A178)

Evaluating Identified Deficiencies

42. The firm should evaluate the severity and pervasiveness of identified deficiencies by (Ref: par. A177 and A179–A180)

- a. investigating the root causes of the identified deficiencies. In determining the nature, timing, and extent of the procedures to investigate the root causes, the firm should take into account the nature of the identified deficiencies and their possible severity. (Ref: par. A181–A185)
- b. evaluating the effect of the identified deficiencies, individually and in aggregate, on the system of quality management.

Responding to Identified Deficiencies

43. The firm should design and implement remedial actions to address identified deficiencies that are responsive to the results of the root cause analysis. (Ref: par. A186–A188)

44. The individual or individuals assigned operational responsibility for the monitoring and remediation process should evaluate whether the remedial actions

- a. are appropriately designed to address the identified deficiencies and their related root causes and determine that they have been implemented.
- b. implemented to address previously identified deficiencies are effective.

45. If the evaluation indicates that the remedial actions are not appropriately designed and implemented or are not effective, the individual or individuals assigned operational responsibility for the monitoring and remediation process should take appropriate action to determine that the remedial actions are appropriately modified such that they are effective.

Findings About a Particular Engagement

46. The firm should respond to circumstances in which findings indicate that there is an engagement for which required procedures were omitted during the performance of the engagement, or that the report issued may be inappropriate. The firm's response should include the following: (Ref: par. A189)

- a.* Taking appropriate action to comply with relevant professional standards and applicable legal and regulatory requirements
- b.* When the report is considered to be inappropriate, considering the implications and taking appropriate action, including considering whether to obtain legal advice

Ongoing Communication Related to Monitoring and Remediation

47. The individual or individuals assigned operational responsibility for the monitoring and remediation process should communicate the following on a timely basis to the individual or individuals assigned ultimate responsibility and accountability for the system of quality management and the individual or individuals assigned operational responsibility for the system of quality management: (Ref: par. A190)

- a.* A description of the monitoring activities performed
- b.* The identified deficiencies, including the severity and pervasiveness of such deficiencies
- c.* The remedial actions to address the identified deficiencies

48. The firm should communicate the matters described in paragraph 47 to engagement teams and other individuals assigned activities within the system of quality management to enable them to take prompt and appropriate action in accordance with their responsibilities.

Network Requirements or Network Services

49. When the firm belongs to a network, the firm should understand the following, when applicable: (Ref: par. A20 and A191–A193)

- a.* The requirements established by the network regarding the firm's system of quality management, including requirements for the firm to implement or use resources or services designed or otherwise provided by or through the network (that is, network requirements)
- b.* Any services or resources provided by the network that the firm chooses to implement or use in the design, implementation, or operation of the firm's system of quality management (that is, network services)
- c.* The firm's responsibilities for any actions that are necessary to implement the network requirements or use network services (Ref: par. A194)

The firm remains responsible for its system of quality management, including professional judgments made in the design, implementation, and operation of the system of quality management. The firm should not allow compliance with the network requirements or use of network services to contravene the requirements of this SQMS. (Ref: par. A20 and A195)

50. Based on the understanding obtained in accordance with paragraph 49, the firm should

- a. determine how the network requirements or network services are relevant to, and are taken into account in, the firm's system of quality management, including how they are to be implemented. (Ref: par. A196)
- b. evaluate whether and, if so, how the network requirements or network services need to be adapted or supplemented by the firm to be appropriate for use in its system of quality management. (Ref: par. A197–A199)

Monitoring Activities Undertaken by the Network on the Firm's System of Quality Management

51. For circumstances in which the network performs monitoring activities relating to the firm's system of quality management, the firm should

- a. determine the effect of the monitoring activities performed by the network on the nature, timing, and extent of the firm's monitoring activities performed in accordance with paragraphs 37–39;
- b. determine the firm's responsibilities in relation to the monitoring activities, including any related actions by the firm; and
- c. as part of evaluating findings and identifying deficiencies in paragraph 41, obtain the results of the monitoring activities from the network in a timely manner. (Ref: par. A200)

Monitoring Activities Undertaken by the Network Across the Network Firms

52. The firm should

- a. understand the overall scope of the monitoring activities undertaken by the network across the network firms, including monitoring activities to determine that network requirements have been appropriately implemented across the network firms, and how the network will communicate the results of its monitoring activities to the firm.
- b. at least annually, obtain information from the network about the overall results of the network's monitoring activities across the network firms, if applicable, and (Ref: par. A201–A203)
 - i. communicate the information to engagement teams and other individuals assigned activities within the system of quality management, as appropriate, to enable them to take prompt and appropriate action in accordance with their responsibilities, and
 - ii. consider the effect of the information on the firm's system of quality management.

Deficiencies in Network Requirements or Network Services Identified by the Firm

53. If the firm identifies a deficiency in the network requirements or network services, the firm should (Ref: par. A204)

- a. communicate to the network relevant information about the identified deficiency, and
- b. in accordance with paragraph 43, design and implement remedial actions to address the effect of the identified deficiency in the network requirements or network

services. (Ref: par. A205)

Evaluating the System of Quality Management

54. The individual or individuals assigned ultimate responsibility and accountability for the system of quality management should evaluate, on behalf of the firm, the system of quality management. The evaluation should be undertaken as of a point in time and performed at least annually. (Ref: par. A206–A209)

55. Based on the evaluation, the individual or individuals assigned ultimate responsibility and accountability for the system of quality management should conclude, on behalf of the firm, one of the following: (Ref: par. A210 and A217)

- a.* The system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved. (Ref: par. A2011)
- b.* Except for matters related to identified deficiencies that have a severe but not pervasive effect on the design, implementation, and operation of the system of quality management, the system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved. (Ref: par. A212)
- c.* The system of quality management does not provide the firm with reasonable assurance that the objectives of the system of quality management are being achieved. (Ref: par. A212–A216)

56. If the individual or individuals assigned ultimate responsibility and accountability for the system of quality management reaches the conclusion described in paragraph 55*b* or 55*c*, the firm should do the following: (Ref: par. A218)

- a.* Take prompt and appropriate action.
- b.* Communicate to
 - i.* engagement teams and other individuals assigned activities within the system of quality management to the extent that it is relevant to their responsibilities, and (Ref: par. A219)
 - ii.* external parties in accordance with the firm’s policies or procedures required by paragraph 35*e*. (Ref: par. A220)

57. The firm should undertake periodic performance evaluations of the individual or individuals assigned ultimate responsibility and accountability for the system of quality management and the individual or individuals assigned operational responsibility for the system of quality management. In doing so, the firm should take into account the evaluation of the system of quality management. (Ref: par. A221–A223)

Documentation

58. The firm should prepare documentation of its system of quality management that is sufficient to (Ref: par. A224–A226)

- a.* support a consistent understanding of the system of quality management by personnel,

including an understanding of their roles and responsibilities with respect to the system of quality management and performing engagements.

- b.* support the consistent implementation and operation of the responses.
- c.* provide evidence of the design, implementation, and operation of the responses to support the evaluation of the system of quality management by the individual or individuals assigned ultimate responsibility and accountability for the system of quality management.

59. In preparing documentation, the firm should include the following:

- a.* Identification of the individual or individuals assigned ultimate responsibility and accountability for the system of quality management and operational responsibility for the system of quality management
- b.* The firm's quality objectives and quality risks (Ref: par. A227)
- c.* A description of the responses and how the firm's responses address the quality risks
- d.* Regarding the monitoring and remediation process,
 - i.* evidence of the monitoring activities performed;
 - ii.* the evaluation of findings, and identified deficiencies and their related root causes; and
 - iii.* remedial actions to address identified deficiencies and the evaluation of the design and implementation of such remedial actions
 - iv.* communications about monitoring and remediation
- e.* The conclusion reached pursuant to paragraph 55 and the basis for that conclusion

60. The firm should document the matters in paragraph 59 as they relate to network requirements or network services and the evaluation of the network requirements or network services in accordance with paragraph 50*b*. (Ref: par. A228)

61. The firm should establish a period of time for the retention of documentation for the system of quality management that is sufficient to enable the firm and its peer reviewer to monitor the design, implementation, and operation of the firm's system of quality management or for a longer period if required by law or regulation.

Application and Other Explanatory Material

Scope of This Statement on Quality Management Standards (Ref: par. 3–4)

A1. The AICPA code establishes the fundamental principles of professional ethics, which include the obligation to act in a way that serves the public interest.² As indicated in paragraph 16, in the context of engagement performance as described in this SQMS, the consistent performance of quality engagements forms part of the obligation to act in the public interest.

² Paragraph .01 of ET section 0.300.030.

The Firm's System of Quality Management (Ref: par. 7–10)

A2. The firm may use different terminology or frameworks to describe the components of its system of quality management.

A3. Examples of the interconnected nature of the components include the following:

- The firm's risk assessment process sets out the process the firm is required to follow in implementing a risk-based approach across the system of quality management.
- The governance and leadership component establishes the environment that supports the system of quality management.
- The resources and information and communication components enable the design, implementation, and operation of the system of quality management.
- The monitoring and remediation process is designed to monitor the entire system of quality management. The results of the monitoring and remediation process provide information that is relevant to the firm's risk assessment process.
- There may be relationships between specific matters; for example, certain aspects of relevant ethical requirements are relevant to accepting and continuing client relationships and specific engagements.

A4. Reasonable assurance is obtained when the system of quality management reduces to an acceptably low level the risk that the objectives stated in paragraph 15a–b are not achieved. Reasonable assurance is not an absolute level of assurance because there are inherent limitations of a system of quality management. Such limitations include the fact that human judgment in decision making can be faulty and that breakdowns in a firm's system of quality management may occur, for example, due to human error or behavior or failures in IT applications.

Authority of This Standard (Ref: par. 13)

A5. The objective of this SQMS provides the context in which the requirements of this SQMS are set, establishes the desired outcome of this SQMS, and is intended to assist the firm in understanding what needs to be accomplished and, when necessary, the appropriate means of doing so.

A6. The requirements of this SQMS are expressed using the word *should*.

A7. When necessary, the application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. In particular, it may

- explain more precisely what a requirement means or is intended to cover, and
- include examples that illustrate how the requirements might be applied.

Although such guidance does not, in itself, impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in this SQMS. These additional considerations assist in the application of the requirements in this SQMS. They do not, however, limit or reduce the responsibility of the firm to apply and comply with the requirements in this SQMS.

A8. This SQMS includes, under the heading “Definitions,” a description of the meanings attributed to certain terms for purposes of this SQMS. These definitions are provided to assist in the consistent application and interpretation of this SQMS and are not intended to override definitions that may be established for other purposes, whether in law, regulation, or otherwise.

Definitions

Accounting and Auditing Practice (Ref: par. 17)

A9. Standards promulgated by the ASB and ARSC that apply to engagements covered by this SQMS comprise the following:

- Statements on Auditing Standards (SASs)
- Statements on Standards for Attestation Engagements (SSAEs)
- Statements on Standards for Accounting and Review Services (SSARSs)

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*.

Deficiency (Ref: par. 17)

A10. The firm identifies deficiencies by evaluating findings. A deficiency may arise from a finding or a combination of findings.

A11. When a deficiency is identified as a result of a quality risk, or combination of quality risks, not being identified or properly assessed, the responses to address such quality risks may also be absent or not appropriately designed or implemented.

A12. The other aspects of the system of quality management consist of the requirements in this SQMS addressing the following:

- Assigning responsibilities (paragraphs 21–22)
- The firm’s risk assessment process
- The monitoring and remediation process
- The evaluation of the system of quality management

A13. Examples of deficiencies related to other aspects of the system of quality management include the following:

- The firm’s risk assessment process fails to identify information that indicates changes in the nature and circumstances of the firm and its engagements and the need to establish additional quality objectives or modify the quality risks or responses.
- The firm’s monitoring and remediation process is not designed or implemented in a manner that
 - provides relevant, reliable, and timely information about the design, implementation, and operation of the system of quality management.

- enables the firm to take appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis.
- The individual or individuals assigned ultimate responsibility and accountability for the system of quality management do not undertake the annual evaluation of the system of quality management.

Engagement Team (Ref: par. 17)

A14. SAS No. 146³ provides guidance in applying the definition of *engagement team* in the context of an audit of financial statements. AU-C section 600, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)*,⁴ expands on how SAS No. 146 is to be applied in relation to an audit of group financial statements. The quality risks and responses to those risks relevant to group audit engagements may be different for engagement team members who are firm personnel than for engagement team members who are external to the firm (for example, engagement team members who are from network firms or are service providers, such as component auditors from firms not within the firm’s network).

External Inspections (Ref: par. 17)

A15. In some circumstances, an external oversight authority, such as the U.S. Department of Labor, may undertake other types of inspections, for example, reviews that focus on, for a selection of firms, particular aspects of audit engagements or firm-wide practices.

Findings (Ref: par. 17)

A16. As part of accumulating findings from monitoring activities, external inspections, and other relevant sources, the firm may identify other observations about the firm’s system of quality management, such as positive outcomes or opportunities for the firm to improve, or further enhance, the system of quality management. Paragraph A168 explains how other observations may be used by the firm in the system of quality management.

A17. Paragraph A157 provides examples of information from other relevant sources.

A18. Monitoring activities include monitoring at the engagement level, such as inspection of engagements. Furthermore, external inspections and other relevant sources may include information that relates to specific engagements. As a result, information about the design, implementation, and operation of the system of quality management includes engagement-level findings that may be indicative of findings in relation to the system of quality management.

Firm (Ref: par. 17)

A19. The definition of *firm* in relevant ethical requirements may differ from the definition set out in this SQMS.

Network (Ref: par. 17 and 49)

³ Paragraphs A15–A21 of Statement on Auditing Standards (SAS) No. 146, *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*.

⁴ All AU-C sections can be found in AICPA *Professional Standards*.

A20. Networks and the firms within the network may be structured in a variety of ways. For example, in the context of a firm’s system of quality management,

- the network may establish requirements for the firm related to its system of quality management or provide services that are used by the firm in its system of quality management or in performing engagements.
- other firms within the network may provide services (for example, resources) that are used by the firm in its system of quality management or in performing engagements.
- other structures or organizations within the network may establish requirements for the firm related to its system of quality management or provide services.

For the purposes of this standard, any network requirements or network services that are obtained from the network, another firm within the network, or another structure or organization in the network are considered “network requirements or network services.”

Personnel (Ref: par. 17)

A21. In addition to personnel (that is, individuals in the firm), the firm may use individuals external to the firm in performing activities in the system of quality management or in performing engagements. For example, individuals external to the firm may include individuals from other network firms (for example, individuals in a service delivery center of a network firm) or individuals employed by a service provider (for example, a component auditor from another firm not within the firm’s network).

A22. Personnel also includes partners and staff in other structures of the firm, such as a service delivery center in the firm.

Relevant Ethical Requirements (Ref: par. 17 and 30)

A23. The relevant ethical requirements that are applicable in the context of a system of quality management may vary, depending on the nature and circumstances of the firm and its engagements. The AICPA code acknowledges that federal, state, or local statutes, rules, or regulations may be more restrictive than the AICPA code.

A24. Various provisions of the relevant ethical requirements may apply only to individuals in the context of the performance of engagements and not the firm itself. For example, the “Integrity and Objectivity Rule” of the AICPA code (ET sec. 1.100.001) prohibits individuals from knowingly misrepresenting facts or subordinating their judgment when performing professional services for a client or for an employer. Compliance with such relevant ethical requirements by individuals may need to be addressed by the firm’s system of quality management.

Response (Ref: par. 17)

A25. Policies are implemented through the actions of personnel and other individuals whose actions are subject to the policies (including engagement teams) or through their restraint from taking actions that would conflict with the firm’s policies.

A26. Procedures may be mandated, through formal documentation or other communications, or may result from behaviors that are not mandated but, rather, are conditioned by the firm’s culture. Procedures may be enforced through the actions permitted by IT applications or other aspects of the firm’s IT environment.

A27. If the firm uses individuals external to the firm in the system of quality management or in performing engagements, different policies or procedures may need to be designed by the firm to address the actions of the individuals. SAS No. 146⁵ provides guidance when different policies or procedures may need to be designed by the firm to address the actions of individuals external to the firm in the context of an audit of financial statements.

Service Provider (Ref: par. 17)

A28. Service providers include component auditors from other firms not within the firm's network.

Applying, and Complying With, Relevant Requirements (Ref: par. 18)

A29. Examples of when a requirement of this SQMS may not be relevant to the firm include the following:

- The firm is a sole practitioner. For example, the requirements addressing the organizational structure and assigning roles, responsibilities, and authority within the firm; direction, supervision, and review; and addressing differences of opinion may not be relevant.
- The firm only performs engagements that are preparation of financial statements engagements in accordance with AR-C section 70, *Preparation of Financial Statements*. For example, because the firm is not required to maintain independence for preparation of financial statements engagements, the requirement to obtain a documented confirmation of compliance with independence requirements from all personnel would not be relevant.

System of Quality Management

Design, Implement, and Operate a System of Quality Management (Ref: par. 20)

A30. Quality management is not a separate function of the firm; it is the integration of a culture that demonstrates a commitment to quality with the firm's strategy, operational activities, and business processes. As a result, designing the system of quality management and the firm's operational activities and business processes in an integrated manner may promote a harmonious approach to managing the firm and enhance the effectiveness of quality management.

A31. The quality of professional judgments exercised by the firm is likely to be enhanced when individuals making such judgments demonstrate an attitude that includes an inquiring mind, which involves

- considering the source, relevance, and sufficiency of information obtained about the system of quality management, including information related to the nature and circumstances of the firm and its engagements, and
- being open and alert to a need for further investigation or other action.

⁵ Paragraphs A23–A25 of SAS No. 146.

Responsibilities (Ref: par. 21–22 and 29d)

A32. The governance and leadership component includes a quality objective that the firm has an organizational structure and assignment of roles, responsibilities, and authority that is appropriate to enable the design, implementation, and operation of the firm’s system of quality management.

A33. Notwithstanding the assignment of responsibilities related to the system of quality management in accordance with paragraph 21, the firm remains ultimately responsible for the system of quality management and holding individuals responsible and accountable for their assigned roles. For example, in accordance with paragraphs 54 and 55, although the firm assigns the evaluation of the system of quality management and conclusion thereon to the individual or individuals assigned ultimate responsibility and accountability for the system of quality management, the firm is responsible for the evaluation and conclusion.

A34. Individuals who have the appropriate influence and authority within the firm, as required by paragraph 22, to be assigned responsibility for the matters in paragraph 21 are typically partners of the firm. However, based on the legal structure of the firm, there may be circumstances in which an individual may not be a partner of the firm, but the individual has the appropriate influence and authority within the firm to perform the assigned role because of formal arrangements made by the firm or the firm’s network.

A35. How the firm assigns roles, responsibilities, and authority within the firm may vary, and law or regulation may impose certain requirements for the firm that affect the leadership and management structure or their assigned responsibilities. An individual assigned responsibility for a matter in paragraph 21 may further assign roles, procedures, tasks, or actions to other individuals to assist the individual in fulfilling the responsibilities. However, an individual assigned responsibility for a matter in paragraph 22 remains responsible and accountable for the responsibilities assigned to the individual.

A36. An example of scalability to demonstrate how assigning roles and responsibilities may be undertaken in firms of different complexity is as follows:

- In a less complex firm, ultimate responsibility and accountability for the system of quality management may be assigned to a single managing partner with sole responsibility for the oversight of the firm. This individual may also assume responsibility for all aspects of the system of quality management, including operational responsibility for the system of quality management, compliance with independence requirements, and the monitoring and remediation process.
- In a more complex firm, the organizational structure of the firm may include multiple levels of leadership, and the firm may have an independent governing body that has nonexecutive oversight of the firm, which may comprise external individuals. Furthermore, the firm may assign operational responsibility for specific aspects of the system of quality management beyond those specified in paragraph 21c, such as operational responsibility for compliance with ethical requirements or operational responsibility for managing a service line.

A37. Compliance with independence requirements is essential to the performance of engagements in a firm’s accounting and auditing practice and is an expectation of stakeholders relying on the firm’s reports. The individual or individuals assigned operational responsibility for compliance with independence requirements are ordinarily responsible for the oversight of all

matters related to independence so that a robust and consistent approach is designed and implemented by the firm to deal with independence requirements.

A38. Law, regulation, or professional standards may establish additional requirements for an individual assigned responsibility for a matter in paragraph 21, such as requirements for professional licensing, professional education, or continuing professional development.

A39. The appropriate experience and knowledge for the individual or individuals assigned operational responsibility for the system of quality management ordinarily includes an understanding of the firm's strategic decisions and actions and experience with the firm's business operations.

The Firm's Risk Assessment Process (Ref: par. 24)

A40. How the firm designs the firm's risk assessment process may be affected by the nature and circumstances of the firm, including how the firm is structured and organized.

Examples of scalability to demonstrate how the firm's risk assessment process may differ from that of other firms include the following:

- In a less complex firm, the individual or individuals assigned operational responsibility for the system of quality management may have a sufficient understanding of the firm and its engagements to undertake the risk assessment process. Furthermore, the documentation of the quality objectives, quality risks, and responses may be less extensive than for a more complex firm (for example, it may be documented in a single document).
- In a more complex firm, there may be a formal risk assessment process involving multiple individuals and numerous activities. The process may be centralized (for example, the quality objectives, quality risks, and responses are established centrally for all business units, functions, and service lines) or decentralized (for example, the quality objectives, quality risks, and responses are established at a business unit, function, or service line level, with the outputs combined at the firm level). The firm's network may also provide the firm with quality objectives, quality risks, and responses to be included in the firm's system of quality management.

A41. The process of establishing quality objectives, identifying and assessing quality risks, and designing and implementing responses is iterative, and the requirements of this SQMS are not intended to be addressed in a linear manner. Examples of the iterative and nonlinear nature of the firm's risk assessment process include the following:

- In identifying and assessing quality risks, the firm might determine that an additional quality objective needs to be established.
- When designing and implementing responses, the firm might determine that a quality risk was not identified and assessed.

A42. Information sources that enable the firm to establish quality objectives, identify and assess quality risks, and design and implement responses are part of the firm's information and communication component and include the following:

- The results of the firm's monitoring and remediation process (see paragraphs 43 and A169)

- Information from the network or service providers, including
 - information about network requirements or network services (see paragraph 49)
 - other information from the network, including information about the results of monitoring activities undertaken by the network across the network firms (see paragraphs 51–52)

Other information, whether internal or external, may also be relevant to the firm’s risk assessment process, such as the following:

- Information regarding complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements or noncompliance with the firm’s policies or procedures established in accordance with this SQMS
- The results of external inspections
- Information from regulators about the entities for whom the firm performs engagements that is made available to the firm, such as information from a securities regulator about an entity for whom the firm performs engagements (for example, irregularities in the entity’s financial statements or noncompliance with securities regulations)
- Changes in the system of quality management that affect other aspects of the system; for example, changes in the firm’s resources
- Other external sources, such as regulatory actions and litigation against the firm or other firms in the jurisdiction that may highlight areas for the firm to consider

Establish Quality Objectives (Ref: par. 25)

A43. Law, regulation, or professional standards may establish requirements that give rise to additional quality objectives. For example, if a firm is required by law or regulation to appoint nonexecutive individuals to the firm’s governance structure, the firm may consider it necessary to establish additional quality objectives to address the requirements.

A44. While the nature and circumstances of the firm and its engagements are specific to the firm, the quality objectives are sufficiently comprehensive such that it is unlikely that the firm would find it necessary to establish additional quality objectives.

A45. The firm may establish sub-objectives to enhance the firm’s identification and assessment of quality risks and design and implementation of responses.

Identify and Assess Quality Risks (Ref: par. 26)

A46. There may be other conditions, events, circumstances, actions, or inactions not described in paragraph 26a that may adversely affect the achievement of a quality objective.

A47. A risk arises from how, and the degree to which, a condition, event, circumstance, action, or inaction may adversely affect the achievement of a quality objective. Not all risks meet the definition of a *quality risk*. Professional judgment assists the firm in determining whether a risk is a quality risk, which is based on the firm’s consideration of whether there is a reasonable

possibility of the risk occurring and, individually or in combination with other risks, adversely affecting the achievement of one or more quality objectives.

A48. Examples of the firm's understanding of the conditions, events, circumstances, actions, or inactions that may adversely affect the achievement of the quality objectives and the related quality risks are as follows:

Examples of the firm's understanding of the conditions, events, circumstances, actions, or inactions that may adversely affect the achievement of the quality objectives	Examples of quality risks that may arise
<p>The strategic and operational decisions and actions, business processes, and business model of the firm: The firm's overall financial goals are overly dependent on the extent of services provided by the firm not within the scope of this SQMS.</p>	<p>In the context of governance and leadership, this may give rise to a number of quality risks such as the following:</p> <ul style="list-style-type: none"> • Resources are allocated or assigned in a manner that prioritizes the services not within the scope of this SQMS and may negatively affect the quality of engagements within the scope of this SQMS. • Decisions about financial and operational priorities do not fully or adequately consider the importance of quality in performing engagements within the scope of this SQMS.
<p>The characteristics and management style of leadership: The firm is a smaller firm with a few engagement partners with shared authority.</p>	<p>In the context of governance and leadership, this may give rise to a number of quality risks such as the following:</p> <ul style="list-style-type: none"> • Leadership's responsibilities and accountability for quality are not clearly defined and assigned. • The actions and behaviors of leadership that do not promote quality are not questioned.

<p>The complexity and operating characteristics of the firm: The firm has recently completed a merger with another firm.</p>	<p>In the context of resources, this may give rise to a number of quality risks, including the following:</p> <ul style="list-style-type: none"> • Technological resources used by the two merged firms may be incompatible. • Engagement teams may use intellectual resources developed by a firm prior to the merger, which are no longer consistent with the new methodology being used by the new merged firm.
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A49. Given the evolving nature of the system of quality management, the responses designed and implemented by the firm may give rise to conditions, events, circumstances, actions, or inactions that result in further quality risks. For example, the firm may implement a resource (for example, a technological resource) to address a quality risk, and quality risks may arise from the use of such resource.

A50. The degree to which a risk, individually or in combination with other risks, may adversely affect the achievement of a quality objective may vary based on the conditions, events, circumstances, actions, or inactions giving rise to the risk, taking matters such as the following into account:

- How the condition, event, circumstance, action, or inaction would affect the achievement of the quality objective
- How frequently the condition, event, circumstance, action, or inaction is expected to occur
- How long it would take after the condition, event, circumstance, action, or inaction occurred for it to have an effect, and whether in that time the firm would have an opportunity to respond to mitigate the effect of the condition, event, circumstance, action, or inaction
- How long the condition, event, circumstance, action, or inaction would affect the achievement of the quality objective once it has occurred

The assessment of quality risks need not comprise formal ratings or scores, although firms are not precluded from using them.

Design and Implement Responses to Address the Quality Risks (Ref: par. 17 and 27)

A51. The nature, timing, and extent of the responses are based on the reasons for the assessment given to the quality risks.

A52. The responses designed and implemented by the firm may operate at the firm level or engagement level, or there may be a combination of responsibilities for actions to be taken at the firm and engagement level. An example of a response designed and implemented by the firm that operates at both the firm and engagement level is as follows:

The firm establishes policies or procedures for consultation, which include with whom consultation should be undertaken by engagement teams and the specific matters for which consultation is required. The firm appoints suitably qualified and experienced individuals to provide the consultations. The engagement team is responsible for identifying when matters for consultation occur, initiating consultation, and implementing the conclusions from consultation.⁶

A53. The need for formally documented policies or procedures may be greater for firms that have many personnel or that are geographically dispersed, in order to achieve consistency across the firm.

Changes in the Nature and Circumstances of the Firm or Its Engagements (Ref: par. 28)

A54. Examples of scalability to demonstrate how policies or procedures for identifying information about changes in the nature and circumstances of the firm and its engagements may vary from other firms include the following:

- In a less complex firm, the firm may have informal policies or procedures to identify information about changes in the nature and circumstances of the firm or its engagements, particularly when the individual or individuals responsible for establishing quality objectives, identifying and assessing quality risks, and designing and implementing responses are able to identify such information in the normal course of their activities.
- In a more complex firm, the firm may need to establish more formal policies or procedures to identify and consider information about changes in the nature and circumstances of the firm or its engagements. This may include, for example, a periodic review of information relating to the nature and circumstances of the firm and its engagements, including ongoing tracking of trends and occurrences in the firm's internal and external environment.

A55. Additional quality objectives may need to be established, or quality risks and responses added to or modified, as part of the remedial actions undertaken by the firm to address an identified deficiency in accordance with paragraph 43.

A56. The firm may have established quality objectives in addition to those specified by this SQMS. The firm may also identify information that indicates that additional quality objectives previously established by the firm are no longer needed or need to be modified.

Governance and Leadership

Commitment to Quality (Ref: par. 29a)

A57. The firm's culture is an important factor in influencing the behavior of personnel. Relevant ethical requirements ordinarily establish the principles of professional ethics and are further

⁶ Paragraph 35 of SAS No. 146.

addressed in the “Relevant Ethical Requirements” section of this SQMS. Professional values and attitudes may include the following:

- Professional manner; for example, timeliness, courteousness, respect, accountability, responsiveness, and dependability
- A commitment to teamwork
- Maintaining an open mind to new ideas or different perspectives in the professional environment
- Pursuit of excellence
- A commitment to continual improvement (for example, setting expectations beyond the minimum requirements and placing a focus on continual learning)
- Social responsibility

A58. The firm’s strategic decision-making process, including the establishment of a business strategy, may include matters such as the firm’s decisions about financial and operational matters, the firm’s financial goals, how financial resources are managed, growth of the firm’s market share, industry specialization, or new service offerings. The firm’s financial and operational priorities may directly or indirectly affect the firm’s commitment to quality; for example, the firm may have incentives focused on financial and operational priorities that may discourage behaviors that demonstrate a commitment to quality.

Leadership (Ref: par. 29b and 29c)

A59. The responses designed and implemented by the firm to hold leadership responsible and accountable for quality include the performance evaluations required by paragraph 57.

A60. Although leadership establishes the tone at the top through its actions and behaviors, clear, consistent, and frequent actions and communications at all levels within the firm collectively contribute to the firm’s culture and demonstrate a commitment to quality.

Organizational Structure (Ref: par. 29d)

A61. The organizational structure of the firm may include operating units, operational processes, divisions, or geographical locations and other structures. In some instances, the firm may concentrate or centralize processes or activities in a service delivery center, and engagement teams may include personnel from the firm’s service delivery center who perform specific tasks that are repetitive or specialized in nature.

Resources (Ref: par. 29e)

A62. The individual or individuals assigned ultimate responsibility and accountability or operational responsibility for the system of quality management are, in most cases, able to influence the nature and extent of resources that the firm obtains, develops, uses, and maintains and how those resources are allocated or assigned, including the timing of when they are used.

A63. Because resource needs may change over time, it may not be practicable to anticipate all resource needs. The firm’s resource planning may involve determining the resources currently

required, forecasting the firm's future resource needs, and establishing processes to deal with unanticipated resource needs when they arise.

Relevant Ethical Requirements (Ref: par. 17 and 30)

A64. The AICPA code sets out the fundamental principles of ethics that provide the framework for the rules that govern the performance of professional responsibilities. The fundamental principles are responsibilities, the public interest, integrity, objectivity and independence, due care, and scope and nature of services. Independence requirements are set forth in the "Independence Rule" (ET sec. 1.200.001) and related interpretations of the AICPA code and the rules of state boards of accountancy and applicable regulatory agencies. Guidance on threats to independence and safeguards to mitigate such threats involving matters that are not explicitly addressed in the AICPA code are set forth in the "Conceptual Framework for Independence" (ET sec. 1.210.010).

A65. In some cases, the matters addressed by the firm in its system of quality management may be more specific than, or additional to, the provisions of relevant ethical requirements. Examples of matters that a firm may include in its system of quality management that are more specific than, or additional to, the provisions of relevant ethical requirements include the following:

- The firm prohibits the acceptance of gifts and hospitality from a client, even if the value is trivial and inconsequential.
- The firm sets rotation periods for all engagement partners, including those performing attestation, review, and compilation engagements.

A66. Other components may affect or relate to the relevant ethical requirements component. Examples of relationships between the relevant ethical requirements component and other components include the following:

- The information and communication component may address the communication of various matters related to relevant ethical requirements, including
 - the firm communicating the independence requirements to all personnel and others subject to independence requirements.
 - personnel and engagement teams communicating relevant information to the firm without fear of reprisals, such as situations that may create threats to independence or breaches of relevant ethical requirements.
- As part of the resources component, the firm may
 - assign individuals to manage and monitor compliance with relevant ethical requirements or to provide consultation on matters related to relevant ethical requirements.
 - use IT applications to monitor compliance with relevant ethical requirements, including recording and maintaining information about independence.

A67. The relevant ethical requirements that apply to others depend on the provisions of the relevant ethical requirements and how the firm uses others in its system of quality management or in performing engagements. Examples of relevant ethical requirements that apply to others include the following:

- Relevant ethical requirements may include requirements for independence that apply to network firms or employees of network firms; for example, the AICPA code includes independence requirements that apply to network firms.
- Relevant ethical requirements may include a definition of *engagement team* or other similar concept, and the definition may include any individual who performs assurance procedures on the engagement (for example, a service provider engaged to attend a physical inventory count at a remote location). Accordingly, any requirements of the relevant ethical requirements that apply to the engagement team as defined in the relevant ethical requirements, or other similar concept, may also be relevant to such individuals.
- The principle of confidentiality may apply to the firm’s network, other network firms, or service providers when they have access to client information obtained by the firm.

A68. AU-C section 600⁷ states that when the component auditor is not subject to the AICPA code, compliance with the ethics and independence requirements set forth in the International Ethics Standards Board for Accountants (IESBA) *International Code of Ethics for Professional Accountants* is sufficient to fulfill the component auditor’s ethical responsibilities in the group audit.⁸ The firm may use, for example, confirmations, letters of representation, or other affirmations from network firms, employees of network firms, or service providers regarding the fulfillment of ethical requirements that are relevant to the firm.

Acceptance and Continuance of Client Relationships and Specific Engagements

The Nature and Circumstances of the Engagement and the Integrity and Ethical Values of the Client (Ref: par. 31a(i))

A69. The information obtained about the nature and circumstances of the engagement may include the following:

- The industry of the entity for which the engagement is being undertaken and relevant regulatory factors
- The nature of the entity; for example, its operations, organizational structure, ownership and governance, its business model, and how it is financed
- The nature of the underlying subject matter and the applicable criteria; for example, in the case of sustainability reporting,
 - the underlying subject matter may include social, environmental, or health and safety information.
 - the applicable criteria may be performance measures established by a recognized body of specialists.

⁷ Paragraph .A46 of AU-C section 600, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)*.

⁸ The section, “Application of the AICPA Code” (ET sec. 0.200.020), of the AICPA Code of Professional Conduct (AICPA code) explains that an AICPA member who is the group engagement partner will not be considered in violation of the AICPA code if a component auditor practicing outside the United States departs from the AICPA code with respect to the audit or review of group financial statements, as long as the component auditor’s conduct, at a minimum, is in accordance with the ethics and independence requirements set forth in the International Ethics Standards Board for Accountants *International Code of Ethics for Professional Accountants*.

A70. The information obtained to support the firm's judgments about the integrity and ethical values of the client may include the identity and business reputation of the client's principal owners, key management, and those charged with its governance.

A71. Examples of factors that may affect the nature and extent of information obtained about the integrity and ethical values of the client include the following:

- The nature of the entity for which the engagement is being performed, including the complexity of its ownership and management structure
- The nature of the client's operations, including its business practices
- Information concerning the attitude of the client's principal owners, key management, and those charged with its governance toward such matters as aggressive interpretation of accounting standards and the internal control environment
- Whether the client is aggressively concerned with keeping the firm's fees as low as possible
- Indications of a client-imposed limitation in the scope of work
- Indications that the client might be involved in money laundering or other criminal activities
- The reasons for the proposed appointment of the firm and non-reappointment of the previous firm
- The identity and business reputation of related parties

A72. The firm may obtain the information from a variety of internal and external sources, including the following:

- In the case of an existing client, information from current or previous engagements, if applicable, or inquiry of other personnel who have performed other engagements for the client.
- In the case of a new client, inquiry of existing or previous providers of auditing services to the client, in accordance with relevant ethical requirements.
- Discussions with other third parties, such as bankers, legal counsel, and industry peers.
- Background searches of relevant databases (which may be intellectual resources). In some cases, the firm may use a service provider to perform the background search.

A73. Information that is obtained during the firm's acceptance and continuance process also may often be relevant to the engagement team when planning and performing the engagement. Professional standards may specifically require the engagement team to obtain or consider such information. For example, SAS No. 146⁹ requires the engagement partner to take into account information obtained in the acceptance and continuance process in planning and performing the audit engagement.

A74. Professional standards or applicable legal and regulatory requirements may include specific provisions that need to be addressed before accepting or continuing a client relationship

⁹ Paragraph 23 of SAS No. 146.

or specific engagement and may also require the firm to make inquiries of an existing or predecessor firm when accepting an engagement. For example, when there has been a change of auditors, AU-C section 210, *Terms of Engagement*,¹⁰ requires the auditor, prior to starting an initial audit, to request management to authorize the predecessor auditor to respond fully to the auditor's inquiries regarding matters that will assist the auditor in determining whether to accept the engagement. The "Conflicts of Interest for Members in Public Practice" interpretation of the AICPA code also addresses consideration of conflicts of interest in accepting or continuing a client relationship or specific engagement (ET sec. 1.110.010).

The Firm's Ability to Perform Engagements (Ref: par. 31a(ii))

A75. The firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements may be affected by the following:

- The availability of appropriate resources to perform the engagement
- Having access to information to perform the engagement or to the persons who provide such information
- Whether the firm and the engagement team are able to fulfill their responsibilities in relation to the relevant ethical requirements

A76. Examples of factors the firm may consider in determining whether appropriate resources are available to perform the engagement include the following:

- The circumstances of the engagement and the reporting deadline.
- The availability of individuals with the appropriate competence and capabilities, including sufficient time, to perform the engagement. This includes having
 - individuals to take overall responsibility for directing and supervising the engagement,
 - individuals with knowledge of the relevant industry or the underlying subject matter or criteria to be applied in the preparation of the subject matter information and experience with relevant regulatory or reporting requirements, and
 - individuals to perform audit procedures on the financial information of a component for purposes of an audit of group financial statements.
- The availability of specialists, if needed.
- If an engagement quality review is needed, whether there is an individual available who meets the eligibility requirements in SQMS No. 2.
- The need for technological resources; for example, IT applications that enable the engagement team to perform procedures on the entity's data.
- The need for intellectual resources; for example, a methodology, industry or subject-matter-specific guides, or access to information sources.

¹⁰ Paragraph .11 of AU-C section 210, *Terms of Engagement*.

The Firm's Financial and Operational Priorities (Ref: par. 31b)

A77. Financial priorities may focus on the profitability of the firm, and fees obtained for performing engagements have an effect on the firm's financial resources. Operational priorities may include strategic focus areas, such as growth of the firm's market share, industry specialization, or new service offerings. There may be circumstances in which the firm is satisfied with the fee quoted for an engagement, but it is not appropriate for the firm to accept or continue the engagement or client relationship (for example, when the client lacks integrity and ethical values).

A78. There may be other circumstances in which the fee quoted for an engagement is not sufficient given the nature and circumstances of the engagement, and it may diminish the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. The "Fees and Other Types of Remuneration" rule of the AICPA code addresses fees and other types of remuneration (ET section 1.500).

Engagement Performance

Responsibilities of the Engagement Team and Direction, Supervision, and Review (Ref: par. 32a and 32b)

A79. Professional standards or applicable legal and regulatory requirements may include specific provisions regarding the overall responsibility of the engagement partner. For example, SAS No. 146 deals with the overall responsibility of the engagement partner for managing and achieving quality on the engagement and for being sufficiently and appropriately involved throughout the engagement, including taking responsibility for appropriate direction and supervision of the engagement team and review of its work.

A80. Examples of direction, supervision, and review include the following:

- Direction and supervision of the engagement team may include
 - tracking the progress of the engagement,
 - considering the following with respect to members of the engagement team:
 - Whether they understand their instructions
 - Whether the work is being carried out in accordance with the planned approach to the engagement
 - addressing matters arising during the engagement, considering their significance, and modifying the planned approach appropriately, and
 - identifying matters for consultation or consideration by more experienced engagement team members during the engagement.
- A review of work performed may include considering whether
 - the work has been performed in accordance with the firm's policies or procedures, professional standards, and applicable legal and regulatory requirements;
 - significant matters have been raised for further consideration;

- appropriate consultations have been undertaken, and the resulting conclusions have been documented and implemented;
- there is a need to revise the nature, timing, and extent of planned work;
- the work performed supports the conclusions reached and is appropriately documented;
- the evidence obtained for an assurance engagement is sufficient and appropriate to support the report; and
- the objectives of the engagement procedures have been achieved.

A81. In some circumstances, the firm may use personnel from a service delivery center in the firm or individuals from a service delivery center in another network firm to perform procedures on the engagement (that is, the personnel or other individuals are included in the engagement team). In such circumstances, the firm's policies or procedures may specifically address the direction and supervision of the individuals and review of their work, such as

- what aspects of the engagement may be assigned to individuals in the service delivery center;
- how the engagement partner, or their designee, is expected to direct, supervise, and review the work undertaken by individuals in the service delivery center; and
- the protocols for communication between the engagement team and individuals in the service delivery center.

Professional Judgment and Professional Skepticism (Ref: par. 32c)

A82. Professional skepticism supports the quality of judgments made on an assurance engagement and, through these judgments, the overall effectiveness of the engagement team in performing the assurance engagement. Other professional standards may address the exercise of professional judgment or maintenance of professional skepticism at the engagement level. For example, SAS No. 146¹¹ provides examples of impediments to the maintenance of professional skepticism at the engagement level, unconscious auditor biases that may impede the maintenance of professional skepticism, and possible actions that the engagement team may take to mitigate such impediments.

Consultation (Ref: par. 32d)

A83. Consultation typically involves a discussion at the appropriate professional level, with individuals within or outside the firm who have specialized expertise on difficult or contentious matters. An environment that reinforces the importance and benefit of consultation and encourages engagement teams to consult may contribute to supporting a culture that demonstrates a commitment to quality.

A84. Difficult or contentious matters on which consultation is needed may either be specified by the firm, or the engagement team may identify matters that require consultation. The firm may also specify how conclusions should be agreed upon and implemented.

¹¹ Paragraphs A34–A36 of SAS No. 146.

A85. SAS No. 146¹² includes requirements for the engagement partner related to consultation.

Differences of Opinion (Ref: par. 32e)

A86. The firm may encourage identifying differences of opinion at an early stage and may specify the steps to be taken in raising and dealing with them, including how the matter is to be resolved and how the related conclusions should be implemented and documented. In some circumstances, resolving differences of opinion may be achieved through consulting with another practitioner or firm, or a professional or regulatory body.

Engagement Documentation (Ref: par. 32f)

A87. Law, regulation, or professional standards may prescribe the time limits by which the assembly of final engagement files for specific types of engagements are to be completed. When no such time limits are prescribed, the time limit may be determined by the firm. For example, in the case of engagements conducted in accordance with the SSAEs or SSARs, an appropriate time limit within which to complete the assembly of the final engagement file is ordinarily not more than 60 days after the date of the engagement report.

A88. The retention and maintenance of engagement documentation may include managing the safe custody, integrity, accessibility, or retrievability of the underlying data and the related technology. The retention and maintenance of engagement documentation may involve the use of IT applications. The integrity of engagement documentation may be compromised if it is altered, supplemented, or deleted without authorization to do so, or if it is permanently lost or damaged.

A89. Law, regulation, or professional standards may prescribe the retention periods for engagement documentation. If the retention periods are not prescribed, the firm may consider the nature of the engagements performed by the firm and the firm's circumstances, including whether the engagement documentation is needed to provide a record of matters of continuing significance to future engagements. In the case of engagements conducted under generally accepted auditing standards or the SSAEs, the retention period is ordinarily no shorter than five years from the date of the engagement report or, if later, the date of the auditor's report on the group financial statements, when applicable.

Resources (Ref: par. 33)

A90. Resources for the purposes of the resources component include the following:

- Human resources
- Technological resources; for example, IT applications
- Intellectual resources; for example, written policies or procedures, a methodology, or guides

Financial resources are also relevant to the system of quality management because they are necessary for obtaining, developing, and maintaining the firm's human resources, technological resources, and intellectual resources. Given that the management and allocation of financial resources is strongly influenced by leadership, the quality objectives in governance and leadership, such as those that address financial and operational priorities, address financial resources.

¹² Paragraph 35 of SAS No. 146.

A91. Resources may be internal to the firm or may be obtained externally from the firm's network, another network firm, or service provider. Resources may be used in performing activities within the firm's system of quality management or in performing engagements as part of operating the system of quality management. In circumstances in which a resource is obtained from the firm's network or another network firm, paragraphs 49–53 form part of the responses designed and implemented by the firm in achieving the objectives in this component.

Human Resources

Hiring, Developing, and Retaining Personnel and Personnel Competence and Capabilities (Ref: par. 33a and d)

A92. *Competence* is the ability of the individual to perform a role and goes beyond knowledge of principles, standards, concepts, facts, and procedures; it is the integration and application of technical competence, professional skills, and professional ethics, values, and attitudes. Competence can be developed through a variety of methods, including professional education, continuing professional development, training, work experience, or coaching of less experienced engagement team members by more experienced engagement team members.

A93. Law, regulation, or professional standards may establish requirements addressing competence and capabilities. For example, law or regulation may establish requirements for the professional licensing of engagement partners, including requirements regarding their professional education and continuing professional development.

A94. The policies or procedures designed and implemented by the firm relating to hiring, developing, and retaining personnel may address, for example, the following:

- Recruiting individuals who have, or are able to develop, appropriate competence
- Training programs focused on developing the competence of personnel and continuing professional development
- Evaluation mechanisms that are undertaken at appropriate intervals and include competency areas and other performance measures
- Compensation, promotion, and other incentives, for all personnel, including engagement partners and individuals assigned roles and responsibilities related to the firm's system of quality management

Personnel's Commitment to Quality and Accountability and Recognition for Commitment to Quality (Ref: par. 33b)

A95. Timely evaluations and feedback help support and promote the continual development of the competence of personnel. Less formal methods of evaluation and feedback may be used, such as in the case of firms with fewer personnel.

A96. Positive actions or behaviors demonstrated by personnel may be recognized through various means, such as through compensation, promotion, or other incentives. In some circumstances, simple or informal incentives that are not based on monetary rewards may be appropriate.

A97. The manner in which the firm holds personnel accountable for actions or behaviors that negatively affect quality, such as failing to demonstrate a commitment to quality, develop and maintain the competence to perform their role, or implement the firm's responses as designed, may depend on the nature of the action or behavior, including its severity and frequency of occurrence. The following are some actions the firm may take when personnel demonstrate actions or behaviors that negatively affect quality:

- Training or other professional development
- Considering the effect of the matter on the evaluation, compensation, promotion, or other incentives of those involved
- Disciplinary action, if appropriate

Individuals Obtained From External Sources (Ref: par. 33c)

A98. Professional standards may include responsibilities for the engagement partner regarding the appropriateness of resources. For example, SAS No. 146¹³ addresses the responsibility of the engagement partner for determining that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner in accordance with the firm's policies or procedures.

Engagement Team Members Assigned to Each Engagement (Ref: par. 33d)

A99. Engagement team members may be assigned to engagements by

- the firm, including assigning personnel from a service delivery center in the firm.
- the firm's network or another network firm when the firm uses individuals from the firm's network or another network firm to perform procedures on the engagement (for example, a component auditor or a service delivery center of the network or another network firm).
- a service provider when the firm uses individuals from a service provider to perform procedures on the engagement (for example, a component auditor from a firm not within the firm's network).

A100. SAS No. 146¹⁴ addresses the responsibility of the engagement partner to determine that members of the engagement team, and any auditor's external specialists and internal auditors who provide direct assistance (who are not part of the engagement team), collectively have the appropriate competence and capabilities, including sufficient time, to perform the engagement. The responses designed and implemented by the firm to address the competence and capabilities of engagement team members assigned to the engagement may include policies or procedures that address the following:

- Information that may be obtained by the engagement partner and factors to consider in determining that the engagement team members assigned to the engagement, including those assigned by the firm's network, another network firm, or service provider, have the competence and capabilities to perform the engagement

¹³ Paragraph 25 of SAS No. 146.

¹⁴ Paragraph 26 of SAS No. 146.

- How concerns about the competence and capabilities of engagement team members, in particular those assigned by the firm's network, another network firm, or service provider, may be resolved

A101. The requirements in paragraphs 49–53 are also applicable when using individuals from the firm's network or another network firm on an engagement, including component auditors (see, for example, paragraph A190).

Technological Resources (Ref: par. 33f)

A102. Technological resources, which are typically IT applications, form part of the firm's IT environment. The firm's IT environment also includes the supporting IT infrastructure and the IT processes and human resources involved in those processes:

- An IT application is a program or a set of programs that is designed to perform a specific function directly for the user or, in some cases, for another application program.
- The IT infrastructure comprises the IT network, operating systems, and databases and their related hardware and software.
- The IT processes are the firm's processes to manage access to the IT environment, program changes or changes to the IT environment, and IT operations, which includes monitoring the IT environment.

A103. A technological resource may serve multiple purposes within the firm, and some of the purposes may be unrelated to the system of quality management. Technological resources that are relevant for the purposes of this SQMS are as follows:

- Technological resources that are directly used in designing, implementing, or operating the firm's system of quality management
- Technological resources that are used directly by engagement teams in performing engagements
- Technological resources that are essential to enabling the effective operation of the preceding, such as, in relation to an IT application, the IT infrastructure and IT processes supporting the IT application

A104. Examples of scalability to demonstrate how the technological resources that are relevant for the purposes of this SQMS may differ in firms of different complexity include the following:

- In a less complex firm, the technological resources may comprise a commercial IT application used by engagement teams that has been purchased from a service provider. The IT processes that support the operation of the IT application may also be relevant, although they may be simple (for example, processes for authorizing access to the IT application and processing updates to the IT application).
- In a more complex firm, the technological resources may be more complex and may comprise the following:
 - Multiple IT applications, including custom-developed applications or applications developed by the firm's network, such as

- IT applications used by engagement teams (for example, engagement software and automated audit tools) and
- IT applications developed and used by the firm to manage aspects of the system of quality management (for example, IT applications to monitor independence or assign personnel to engagements)
- The IT processes that support the operation of these IT applications, including the individuals responsible for managing the IT infrastructure and processes and the firm's processes for managing program changes to IT applications

A105. The firm may consider the following matters in obtaining, developing, implementing, and maintaining an IT application:

- The data inputs are complete and appropriate.
- Confidentiality of the data is preserved.
- The IT application operates as designed and achieves the purpose for which it is intended.
- The outputs of the IT application achieve the purpose for which they will be used.
- The general IT controls necessary to support the IT application's continued operation as designed are appropriate.
- The need for specialized skills to use the IT application effectively, including the training of individuals who will use the IT application.
- The need to develop procedures that set out how the IT application operates.

A106. The firm may specifically prohibit the use of IT applications or features of IT applications until such time that it has been determined that they operate appropriately and have been approved for use by the firm. Alternatively, the firm may establish policies or procedures to address circumstances in which the engagement team uses an IT application that is not approved by the firm. Such policies or procedures may require the engagement team to determine that the IT application is appropriate for use prior to using it on the engagement, through considering the matters in paragraph A102. SAS No. 146¹⁵ addresses the engagement partner's responsibilities for engagement resources.

Intellectual Resources (Ref: par. 33g)

A107. Intellectual resources include the information and materials the firm uses to enable the operation of the system of quality management and promote consistency in performing engagements. Examples of intellectual resources include written policies or procedures, a methodology, industry or subject-matter-specific guides, accounting guides, standardized documentation, or access to information sources (for example, subscriptions to websites that

¹⁵ Paragraphs 25–28 of SAS No. 146.

provide in-depth information about entities or other information that is typically used in performing engagements).

A108. Intellectual resources may be made available through technological resources; for example, the firm's methodology may be embedded in the IT application that facilitates the planning and performance of the engagement.

Use of Technological and Intellectual Resources (Ref: par. 33f–g)

A109. The firm may establish policies or procedures regarding the use of the firm's technological and intellectual resources. Examples of such policies or procedures include the following:

- Requiring the use of certain IT applications or intellectual resources in performing engagements, or relating to other aspects of the engagement, such as in archiving the engagement file
- Specifying the qualifications or experience that individuals need to use the resource, including the need for a specialist or training; for example, the firm may specify the qualifications or expertise needed to use an IT application that analyzes data, given that specialized skills may be needed to interpret the results
- Specifying the responsibilities of the engagement partner regarding the use of technological and intellectual resources
- Setting out how the technological or intellectual resources are to be used, including how individuals should interact with an IT application or how the intellectual resource should be applied, and the availability of support or assistance in using the technological or intellectual resource

Service Providers (Ref: par. 17 and 33h)

A110. In some circumstances, the firm may use resources that are provided by a service provider, particularly in circumstances in which the firm does not have access to the appropriate resources internally. Notwithstanding that a firm may use resources from a service provider, the firm remains responsible for its system of quality management.

A111. Examples of resources from a service provider include the following:

- Individuals engaged to perform the firm's monitoring activities or engagement quality reviews, or to provide consultation on technical matters
- A commercial IT application used to perform audit engagements
- Individuals performing procedures on the firm's engagements; for example, component auditors from firms not within the firm's network or individuals engaged to attend a physical inventory count at a remote location
- An auditor's external specialist used by the firm to assist the engagement team in obtaining audit evidence

A112. In identifying and assessing quality risks, the firm is required to obtain an understanding of the conditions, events, circumstances, actions, or inactions that may adversely affect the achievement of the quality objectives, which includes conditions, events, circumstances, actions, or inactions relating to service providers. In doing so, the firm may consider the nature of the

resources provided by service providers, how and the extent to which they will be used by the firm, and the general characteristics of the service providers used by the firm (for example, the varying types of other professional services firms that are used) to identify and assess quality risks related to the use of such resources.

A113. In determining whether a resource from a service provider is appropriate for use in the firm's system of quality management or performing engagements, the firm may obtain information about the service provider and the resource it provides from a number of sources. The following are matters the firm may consider:

- The related quality objective and quality risks. For example, in the case of a methodology from a service provider, there may be quality risks related to the quality objective in paragraph 33g, such as a quality risk that the service provider does not update the methodology to reflect changes in professional standards and applicable legal and regulatory requirements.
- The nature and scope of the resources and the conditions of the service (for example, in relation to an IT application, how often updates will be provided, limitations on the use of the IT application, and how the service provider addresses confidentiality of data).
- The extent to which the resource is used across the firm, how the resource will be used by the firm, and whether it is suitable for that purpose.
- The extent of customization of the resource for the firm.
- The firm's previous use of the service provider.
- The service provider's experience in the industry and reputation in the market.
- The results of attestation engagements performed by independent third parties on the resource (for example, assurance engagements on quality control materials or reports on service organization controls).

A114. The firm may have a responsibility to take further actions in using the resource from a service provider so that the resource functions effectively. For example, the firm may need to communicate information to the service provider in order for the resource to function effectively or, in relation to an IT application, the firm may need to have supporting IT infrastructure and IT processes in place.

A115. The evaluation of a service provider from a firm not within the firm's network that is used as a component auditor may be different than that of a service provider engaged directly by the firm. For example, in understanding the competency of the component auditor to perform the engagement, it may not be necessary or practicable for the firm to obtain an understanding of how the component auditor updates its methodology to reflect changes in professional standards. Rather, the firm could perform procedures such as review of results of regulatory inspections, transparency or audit quality information published by the component auditor's firm, or evaluation of the reputation of the component auditor.

Information and Communication (Ref: par. 34)

A116. Obtaining, generating, or communicating information is generally an ongoing process that involves all personnel and encompasses the dissemination of information within the firm and

externally. Information and communication are pervasive to all components of the system of quality management.

The Firm's Information System (Ref: par. 34a)

A117. Reliable and relevant information includes information that is accurate, complete, timely, and valid to enable the proper functioning of the firm's system of quality management and to support decisions regarding the system of quality management.

A118. The information system may include the use of manual or IT elements, which affect the manner in which information is identified, captured, processed, maintained, and communicated. The procedures to identify, capture, process, maintain, and communicate information may be enforced through IT applications and in some cases may be embedded within the firm's responses for other components. In addition, digital records may replace or supplement physical records.

A119. An example of scalability is that less complex firms with fewer personnel and direct involvement of leadership may not need rigorous policies and procedures that specify how information should be identified, captured, processed, and maintained.

Communication Within the Firm (Ref: par. 34b–c)

A120. The firm may recognize and reinforce the responsibility of personnel and engagement teams to exchange information with the firm and one another by establishing communication channels to facilitate communication across the firm. Examples of communication among the firm, engagement teams, and other individuals include the following:

- The firm communicates the responsibility for implementing the firm's responses to personnel and engagement teams.
- The firm communicates changes to the system of quality management to personnel and engagement teams to the extent that the changes are relevant to their responsibilities and enables personnel and engagement teams to take prompt and appropriate action in accordance with their responsibilities.
- The firm communicates information that is obtained during the firm's acceptance and continuance process that is relevant to engagement teams in planning and performing engagements.
- Engagement teams communicate the following information to the firm:
 - Information about the client that is obtained during the performance of an engagement that may have caused the firm to decline the client relationship or specific engagement had that information been known prior to accepting or continuing the client relationship or specific engagement
 - Information about the operation of the firm's responses (for example, concerns about the firm's processes for assigning personnel to engagements) which, in some cases, may indicate a deficiency in the firm's system of quality management
- Engagement teams communicate information to the engagement quality reviewer or individuals providing consultation.

- Group engagement teams communicate matters to component auditors in accordance with the firm's policies or procedures, including matters related to quality management at the engagement level.
- The individual or individuals assigned operational responsibility for compliance with independence requirements communicate to relevant personnel and engagement teams changes in the independence requirements and the firm's policies or procedures to address such changes.

Communication With External Parties

Communication to or Within the Firm's Network and to Service Providers (Ref: par. 34d(i))

A121. In addition to the firm communicating information to or within the firm's network or to a service provider, the firm may need to obtain information from the network, a network firm, or a service provider that supports the firm in the design, implementation, and operation of its system of quality management. For example, the firm may obtain information from the network or other network firms about clients of other network firms when there are independence requirements that affect the firm.

Communication With Others External to the Firm (Ref: par. 34d(ii))

A122. Examples of when law, regulation, or professional standards may require the firm to communicate information to external parties include the following:

- The firm becomes aware of noncompliance with laws and regulations by a client, and relevant ethical requirements require the firm to report the noncompliance with laws and regulations to an appropriate authority outside the client entity or to consider whether such reporting is an appropriate action in the circumstances.
- Law or regulation requires the firm to publish a transparency report and specifies the nature of the information that is required to be included in the transparency report.
- Securities law or regulation requires the firm to communicate certain matters to those charged with governance.

Paragraphs A131–A135 address communications to support external parties' understanding of the system of quality management beyond those required by law, regulation, or professional standards.

A123. In some cases, law or regulation may preclude the firm from communicating information related to its system of quality management externally. Examples of when the firm may be precluded from communicating information externally include the following:

- Confidentiality law or regulation prohibits disclosure of certain information
- Law, regulation, or relevant ethical requirements include provisions addressing the duty of confidentiality

Specified Responses (Ref: par. 35)

A124. The specified responses may address multiple quality risks related to more than one quality objective across different components. For example, policies or procedures for complaints and allegations may address quality risks related to quality objectives in resources (for example, personnel’s commitment to quality), relevant ethical requirements, and governance and leadership.

Relevant Ethical Requirements (Ref: par. 35a–b)

A125. Relevant ethical requirements may contain provisions regarding the identification and evaluation of threats and how they should be addressed. For example, the AICPA code provides a conceptual framework for this purpose and, in applying the conceptual framework, requires that the firm use the reasonable and informed third-party test.

A126. Relevant ethical requirements may specify how the firm is required to respond to a breach. For example, the “Breach of an Independence” interpretation (ET sec. 1.298.010) of the “Independence Rule” (ET sec. 1.200.001) contains guidance addressing a breach of an independence interpretation of the AICPA code, which also contains guidance addressing a breach of any other provision of the AICPA code.

A127. Matters the firm may address relating to breaches of the relevant ethical requirements include the following:

- The communication of breaches of the relevant ethical requirements to appropriate personnel
- The evaluation of the significance of a breach and its effect on compliance with relevant ethical requirements
- The actions to be taken to satisfactorily address the consequences of a breach, including that such actions be taken as soon as practicable
- Determining whether to report a breach to external parties, such as those charged with governance of the entity to which the breach relates or an external oversight authority
- Determining the appropriate actions to be taken in relation to the individual or individuals responsible for the breach

Complaints and Allegations (Ref: par. 35c)

A128. Establishing policies or procedures for dealing with complaints and allegations may assist the firm in preventing engagement reports from being issued that are inappropriate. It also may assist the firm in

- identifying and dealing with individuals, including leadership, who do not act or behave in a manner that demonstrates a commitment to quality and supports the firm’s commitment to quality, or
- identifying deficiencies in the system of quality management.

A129. Complaints and allegations may be made by personnel or others external to the firm (for example, clients, component auditors, or individuals within the firm’s network).

Information That Becomes Known Subsequent to Accepting or Continuing a Client Relationship or Specific Engagement (Ref: par. 35d)

A130. Information that becomes known subsequent to accepting or continuing a client relationship or specific engagement may

- have existed at the time of the firm's decision to accept or continue the client relationship or specific engagement, and the firm was not aware of such information, or
- relate to new information that has arisen since the decision to accept or continue the client relationship or specific engagement.

A131. Examples of matters addressed in the firm's policies or procedures for circumstances in which information becomes known subsequent to accepting or continuing a client relationship or specific engagement that may have affected the firm's decision to accept or continue a client relationship or specific engagement include the following:

- Undertaking consultation within the firm or with legal counsel
- Considering whether there is a professional, legal, or regulatory requirement for the firm to continue the engagement
- Discussing with the appropriate level of the client's management and with those charged with governance or the engaging party the action that the firm might take based on the relevant facts and circumstances
- When it is determined that withdrawal is an appropriate action:
 - Informing the client's management and those charged with governance or the engaging party of this decision and the reasons for the withdrawal
 - Considering whether there is a professional, legal, or regulatory requirement for the firm to report the withdrawal from the engagement, or from both the engagement and the client relationship, together with the reasons for the withdrawal, to regulatory authorities

A132. In some circumstances, law or regulation may impose an obligation on the firm to accept or continue a client engagement.

A133. Examples of matters addressed in the firm's policies or procedures in circumstances in which the firm is obligated to accept or continue an engagement or the firm is unable to withdraw from an engagement, and the firm is aware of information that would have caused the firm to decline or discontinue the engagement, include the following:

- The firm considers the effect of the information on the performance of the engagement.
- The firm communicates the information to the engagement partner and requests the engagement partner to increase the extent and frequency of the direction and supervision of the engagement team members and review of their work.
- The firm assigns more experienced personnel to the engagement.
- The firm determines that an engagement quality review should be performed.

Communication With External Parties (Ref: par: 35e)

A134. The firm's ability to maintain stakeholder confidence in the quality of its engagements may be enhanced through relevant, reliable, and transparent communication by the firm about the activities that it has undertaken to address quality and the effectiveness of those activities.

A135. External parties who may use information about the firm's system of quality management, and the extent of their interest in the firm's system of quality management, may vary based on the nature and circumstances of the firm and its engagements.

A136. Examples of external parties who may use information about the firm's system of quality management include the following:

- Management or those charged with governance of the firm's clients may use the information to determine whether to appoint the firm to perform an engagement.
- External oversight authorities may have indicated a desire for the information to support their responsibilities in monitoring the quality of engagements across a jurisdiction and in understanding the work of firms.
- Other firms who use the work of the firm in performing engagements (for example, in relation to a group audit) may have requested such information.
- Other users of the firm's engagement reports, such as investors who use engagement reports in their decision making, may have indicated a desire for the information.

A137. The information about the system of quality management provided to external parties, including information communicated to those charged with governance about how the system of quality management supports the consistent performance of quality engagements, may address such matters as the following:

- The nature and circumstances of the firm, such as the organizational structure, business model, strategy, and operating environment
- The firm's governance and leadership, such as
 - its culture;
 - how it demonstrates a commitment to quality; and
 - how roles, responsibilities, and authority with respect to the system of quality management are assigned
- How the firm fulfills its responsibilities in accordance with relevant ethical requirements, including those related to independence
- Factors that contribute to quality engagements; for example, such information may be presented in the form of engagement quality indicators with narrative to explain the indicators
- The results of the firm's monitoring activities and external inspections and how the firm has remediated identified deficiencies or is otherwise responding to them
- The evaluation undertaken in accordance with paragraphs 54–55 of whether the system of quality management provides the firm with reasonable assurance that the objectives

of the system are being achieved and the conclusion thereon, including the basis for the judgments made in evaluating and concluding

- How the firm has responded to emerging developments and changes in the circumstances of the firm or its engagements, including how the system of quality management has been adapted to respond to such changes
- The relationship between the firm and the network, the overall structure of the network, a description of network requirements and network services, the responsibilities of the firm and the network (including that the firm is ultimately responsible for the system of quality management), and information about the overall scope and results of network monitoring activities across the network firms

Determining When It Is Appropriate to Communicate With External Parties (Ref: par. 35e(i))

A138. The firm's determination of when it is appropriate to communicate with external parties about the firm's system of quality management is a matter of professional judgment and may be influenced by matters such as the following:

- The types of engagements performed by the firm
- The types of entities for which such engagements are undertaken; for example, entities that may have public interest or public accountability characteristics, such as
 - entities that hold a significant amount of assets in a fiduciary capacity for a large number of stakeholders, including financial institutions, such as certain banks, insurance companies, and pension funds;
 - entities with a high public profile or whose management or owners have a high public profile; and
 - entities with a large number and wide range of stakeholders.
- The nature and circumstances of the firm
- The nature of the firm's operating environment, such as customary business practice in the firm's jurisdiction and the characteristics of the financial markets in which the firm operates
- The extent to which the firm has already communicated with external parties in accordance with law or regulation (that is, whether further communication is needed and, if so, the matters to be communicated)
- The expectations of stakeholders in the firm's jurisdiction, including the understanding and interest that external parties have expressed about the engagements undertaken by the firm, and the firm's processes in performing the engagements
- Jurisdictional trends
- The information that is already available to external parties
- How external parties may use the information, and their general understanding of matters related to firms' systems of quality management and engagements performed by the firm in its accounting and auditing practice

- The public interest benefits of external communication and whether it would reasonably be expected to outweigh the costs (monetary or otherwise) of such communication

The preceding matters may also affect the information provided by the firm in the communication and the nature, timing, and extent and appropriate form of communication.

A139. AU-C section 260, *The Auditor's Communication With Those Charged With Governance*, deals with the auditor's responsibility to communicate with those charged with governance in an audit of financial statements and addresses the auditor's determination of the appropriate person or persons within the entity's governance structure with whom to communicate¹⁶ and the communication process.¹⁷ In some circumstances, it may be appropriate to include information about the firm's system of quality management in those communications with those charged with governance (or when performing other engagements, for example, review or examination engagements). How the communication with those charged with governance is undertaken (that is, by the firm or the engagement team) may depend on the firm's policies or procedures and the circumstances of the engagement.

Considerations for Engagements for Governmental Organizations

A140. The firm may determine it is appropriate to communicate to those charged with governance of a governmental organization about how the firm's system of quality management supports the consistent performance of quality engagements, taking into account the size and complexity of the governmental organization, the range of its stakeholders, the nature of the services it provides, and the roles and responsibilities of those charged with governance.

Nature, Timing, and Extent and Appropriate Form of Communication With External Parties (Ref: par: 35e(ii))

A141. The firm may consider the following attributes in preparing information that is communicated to external parties:

- The information is specific to the circumstances of the firm. Relating the matters in the firm's communication directly to the specific circumstances of the firm may help to minimize the potential that such information becomes overly standardized and less useful over time.
- The information is presented in a clear and understandable manner, and the manner of presentation is neither misleading nor would inappropriately influence the users of the communication (for example, the information is presented in a manner that is appropriately balanced toward positive and negative aspects of the matter being communicated).
- The information is accurate and complete in all material respects and does not contain information that is misleading.
- The information takes into consideration the information needs of the users for whom it is intended. In considering the information needs of the users, the firm may consider

¹⁶ Paragraphs .07–.09 of AU-C section 260, *The Auditor's Communication With Those Charged With Governance*.

¹⁷ Paragraphs .15–.20 of AU-C section 260.

matters such as the level of detail that users would find meaningful and whether users have access to relevant information through other sources (for example, the firm's website).

A142. The firm uses professional judgment in determining, in the circumstances, the appropriate form of communication with the external party, including communication with those charged with governance when performing an audit of financial statements of listed entities, which may be made orally or in writing. Accordingly, the form of communication may vary.

Examples of forms of communication to external parties include the following:

- A publication such as a transparency report or audit quality report
- Targeted written communication to specific stakeholders (for example, information about the results of the firm's monitoring and remediation process)
- Direct conversations and interactions with the external party (for example, discussions between the engagement team and those charged with governance)
- A web page
- Other forms of digital media, such as social media, or interviews or presentations via webcast or video

Engagements Subject to an Engagement Quality Review

Engagement Quality Review Required by Law or Regulation (Ref: par. 35f(i))

A143. Law or regulation may require an engagement quality review to be performed, for example, for audit engagements for entities that

- are *public interest entities* as defined in a particular jurisdiction,
- are governmental organizations or recipients of government funding, or entities with public accountability,
- operate in certain industries (for example, financial institutions such as banks, insurance companies, and pension funds),
- meet a specified asset threshold, or
- are under the management of a court or judicial process (for example, liquidation).

Engagement Quality Review as a Response to Address One or More Quality Risks (Ref: par. 35f(ii))

A144. The firm's understanding of the conditions, events, circumstances, actions, or inactions that may adversely affect the achievement of the quality objectives as required by paragraph 26a(ii) relates to the nature and circumstances of the engagements performed by the firm. In designing and implementing responses to address one or more quality risks, the firm may determine that an engagement quality review is an appropriate response based on the reasons for the assessments given to the quality risks.

A145. Criteria established by the firm to determine whether an engagement quality review is an appropriate response for one or more quality risks may relate to the types of engagements

performed by the firm and reports to be issued, and the types of entities for which engagements are undertaken. Examples of conditions, events, circumstances, actions, or inactions giving rise to such quality risks include the following:

Those relating to the types of engagements performed by the firm and reports to be issued:

- Engagements that involve a high level of complexity or judgment, such as the following:
 - Audits of financial statements for entities operating in an industry that typically has accounting estimates with a high degree of estimation uncertainty (for example, certain large financial institutions or mining entities) or for entities for which uncertainties exist related to events or conditions that may cast significant doubt on their ability to continue as a going concern
 - Assurance engagements that require specialized skills and knowledge in measuring or evaluating the underlying subject matter against the applicable criteria (for example, a greenhouse gas statement in which there are significant uncertainties associated with the quantities reported therein)
- Engagements on which issues have been encountered, such as audit engagements with recurring internal or external inspection findings, unremediated significant deficiencies in internal control, or a material restatement of comparative information in the financial statements
- Engagements for which unusual circumstances have been identified during the firm's acceptance and continuance process (for example, a new client that had a disagreement with its previous auditor or assurance practitioner)
- Engagements that involve reporting on financial or nonfinancial information that is expected to be included in a regulatory filing and that may involve a higher degree of judgment, such as pro forma financial information to be included in a prospectus

Those relating to the types of entities for which engagements are undertaken:

- Entities in emerging industries or for which the firm has no previous experience
- Entities for which concerns were expressed in communications from regulators
- Entities that may have public interest or public accountability characteristics, such as the following:
 - Entities that hold a significant amount of assets in a fiduciary capacity for a large number of stakeholders, including financial institutions such as certain banks, insurance companies, and pension funds for which an engagement quality review is not otherwise required by law or regulation
 - Entities with a high public profile or whose management or owners have a high public profile
 - Entities with a large number and wide range of stakeholders
 - Governmental organizations
 - Due to their size and complexity, the range of their stakeholders or the

nature of the services they provide

- Due to the complexity, and importance to users, of additional reporting requirements established by law or regulation (for example, a separate report on instances of noncompliance with law or regulation to the legislature or other governing body or communicating such instances in the auditor's report on the financial statements)

A146. The firm's responses to address quality risks may include other forms of engagement reviews that are not an engagement quality review. For example, for audits of financial statements, the firm's responses may include reviews of the engagement team's procedures relating to significant risks, or reviews of certain significant judgments, by personnel who have specialized technical expertise. In some cases, these other types of engagement reviews may be undertaken in addition to an engagement quality review.

A147. In some cases, the firm may determine that there are no audits or other engagements for which an engagement quality review or another form of engagement review is an appropriate response to address the quality risks.

Monitoring and Remediation Process (Ref: par. 36–48)

A148. In addition to enabling the evaluation of the system of quality management, the monitoring and remediation process facilitates the proactive and continual improvement of engagement quality and the system of quality management. Examples follow:

- Given the inherent limitations of a system of quality management, the firm's identification of deficiencies is not unusual, and it is an important aspect of the system of quality management because prompt identification of deficiencies enables the firm to remediate them in a timely and effective manner and contributes to a culture of continual improvement.
- The monitoring activities may provide information that enables the firm to prevent a deficiency through responding to a finding that could, over a period of time, lead to a deficiency.

Designing and Performing Monitoring Activities (Ref: par. 38–39)

A149. The firm's monitoring activities may comprise a combination of ongoing monitoring activities and periodic monitoring activities. Ongoing monitoring activities are generally routine activities built into the firm's processes and performed on a real-time basis. Periodic monitoring activities are conducted at certain intervals by the firm. In most cases, ongoing monitoring activities provide information about the system of quality management in a timelier manner.

A150. Monitoring activities may include the inspection of in-process engagements. Inspections of engagements are designed to monitor whether an aspect of the system of quality management is designed, implemented, and operating in the manner intended. In some circumstances, the system of quality management may include responses that are designed to review engagements while they are in the process of being performed that appear similar in nature to an inspection of in-process engagements (for example, reviews that are designed to detect failures or shortcomings in the system of quality management so that they can prevent a quality risk from occurring). The purpose of the activity drives its design and implementation and where it fits within the system of

quality management (that is, whether it is an inspection of an in-process engagement that is a monitoring activity or a review of an engagement that is a response to address a quality risk).

A151. The nature, timing, and extent of the monitoring activities may also be affected by other matters, including

- the size, structure, and organization of the firm,
- the involvement of the firm's network in monitoring activities, and
- the resources that the firm intends to use to enable monitoring activities, such as the use of IT applications.

A152. When performing monitoring activities, the firm may determine that changes to the nature, timing, and extent of the monitoring activities are needed, such as when findings indicate the need for more extensive monitoring activities.

The Design of the Firm's Risk Assessment Process and Monitoring and Remediation Process
(Ref: par. 38c)

A153. How the firm's risk assessment process is designed (for example, a centralized or decentralized process, or the frequency of review) may affect the nature, timing, and extent of the monitoring activities, including monitoring activities over the firm's risk assessment process.

A154. How the firm's monitoring and remediation process is designed (that is, the nature, timing, and extent of the monitoring and remediation activities, taking into account the nature and circumstances of the firm) may affect the monitoring activities undertaken by the firm to determine whether the monitoring and remediation process is achieving the intended purpose as described in paragraph 36.

A155. An example of scalability to demonstrate how the monitoring activities for the monitoring and remediation process may differ in firms of different complexity is as follows:

- In a less complex firm, the monitoring activities may be simple because information about the monitoring and remediation process may be readily available in the form of leadership's knowledge, based on their frequent interaction with the system of quality management, of the nature, timing, and extent of the monitoring activities undertaken, the results of the monitoring activities, and the firm's actions to address the results.
- In a more complex firm, the monitoring activities for the monitoring and remediation process may be specifically designed to determine that the monitoring and remediation process is providing relevant, reliable, and timely information about the system of quality management, and responding appropriately to identified deficiencies.

Changes in the System of Quality Management (Ref: par. 38d)

A156. Changes in the system of quality management may include

- changes to address an identified deficiency in the system of quality management, and
- changes to the quality objectives, quality risks, or responses as a result of changes in the nature and circumstances of the firm and its engagements.

When changes occur, previous monitoring activities undertaken by the firm may no longer provide the firm with information to support the evaluation of the system of quality management and, therefore, the firm's monitoring activities may include monitoring of those areas of change.

Previous Monitoring Activities (Ref: par. 38e and 44b)

A157. The results of the firm's previous monitoring activities may indicate areas of the system where a deficiency may arise, particularly areas where there is a history of identified deficiencies.

A158. Previous monitoring activities undertaken by the firm may no longer provide the firm with information to support the evaluation of the system, including on areas of the system of quality management that have not changed, particularly when time has elapsed since the monitoring activities were undertaken.

Other Relevant Information (Ref: par. 38f)

A159. In addition to the sources of information indicated in paragraph 38f, other relevant information may include the following:

- Information communicated by the firm's network in accordance with paragraphs 51c and 52b about the firm's system of quality management, including the network requirements or network services that the firm has included in its system of quality management
- Information communicated by a service provider about the resources the firm uses in its system of quality management
- Information from regulators about the entities for whom the firm performs engagements that is made available to the firm, such as information from a securities regulator about an entity for whom the firm performs engagements (for example, irregularities in the entity's financial statements)

A160. The results of external inspections or other relevant information, both internal and external, may indicate that previous monitoring activities undertaken by the firm failed to identify a deficiency in the system of quality management. This information may affect the firm's consideration of the nature, timing, and extent of the monitoring activities.

A161. External inspections are not a substitute for the firm's internal monitoring activities. Nevertheless, the results of external inspections inform the nature, timing, and extent of the monitoring activities.

Engagement Inspections (Ref: par. 39)

A162. Examples of matters in paragraph 38 that may be considered by the firm in selecting completed engagements for inspection include the following:

- In relation to the conditions, events, circumstances, actions, or inactions giving rise to the quality risks:
 - The types of engagements performed by the firm, and the extent of the firm's experience in performing the type of engagement

- The types of entities for which engagements are undertaken, such as the following:
 - Entities operating in emerging industries
 - Entities operating in industries associated with a high level of complexity or judgment
 - Entities operating in an industry that is new to the firm
- The tenure and experience of engagement partners
- The results of previous inspections of completed engagements, including for each engagement partner
- In relation to other relevant information:
 - Complaints or allegations about an engagement partner
 - The results of external inspections, including for each engagement partner
 - The results of the firm's evaluation of each engagement partner's commitment to quality

A163. The firm may undertake multiple monitoring activities, other than inspection of completed engagements, that focus on determining whether engagements have complied with policies or procedures. These monitoring activities may be undertaken on certain engagements or engagement partners. The nature and extent of these monitoring activities, and the results, may be used by the firm in determining the following:

- How often to select completed engagements for inspection, and which completed engagements to select, based on the factors described in paragraph A159
- Which engagement partners to select for inspection, and how frequently to select an engagement partner for inspection, based on factors such as how long it has been since the engagement partner was subject to inspection, the results of previous inspections of the engagement partner, or the engagement partner's experience with performing engagements at different levels of service, in new industries, or with complex financial reporting matters
- Which aspects of the engagement to consider when performing the inspection of completed engagements

For example, if the firm has undertaken inspections of in-process engagements,

- the firm may determine it appropriate to reduce the extent of selection of completed engagements for inspection;
- the results of the inspections of in-process engagements may indicate areas of risk that may affect which completed engagements are selected for inspection; or
- the results of the inspections of in-process engagements may identify negative quality issues that prompt the firm to shorten the inspection cycle or expand the extent of completed engagement inspections.

A164. The inspection of completed engagements for engagement partners on a cyclical basis may assist the firm in monitoring whether engagement partners have fulfilled their overall responsibility for managing and achieving quality on the engagements to which they are assigned.

A165. Examples of policies and procedures that a firm may establish to apply a cyclical basis for the inspection of completed engagements for each engagement partner include the following policies or procedures that

- set forth the standard period of the inspection cycle, such as the inspection of a completed engagement for each engagement partner performing audits of financial statements once every, for example, three years, and for all other engagement partners, once every, for example, five years.
- set out the criteria for selecting completed engagements, including that for an engagement partner performing audits of financial statements, the engagements selected include an audit engagement.
- address the selection of engagement partners in a manner that is unpredictable.
- address when it is necessary or appropriate to select engagement partners more, or less, frequently than the standard period set out in the policy. Examples follow:
 - The firm may select engagement partners more frequently than the standard period set out in the firm's policy when the following apply:
 - Multiple deficiencies have been identified by the firm that have been evaluated as severe, and the firm determines that a more frequent cyclical inspection is needed across all engagement partners.
 - The engagement partner performs engagements for entities operating in a certain industry in which there are high levels of complexity or judgment.
 - An engagement performed by the engagement partner has been subject to other monitoring activities, and the results of the other monitoring activities were unsatisfactory.
 - The engagement partner has performed an engagement for an entity operating in an industry in which the engagement partner has limited experience.
 - The engagement partner has limited experience in performing that level of service engagements.
 - The engagement partner is a newly appointed engagement partner or has recently joined the firm from another firm or another jurisdiction.
 - The firm may defer the selection of the engagement partner (for example, deferring for a year beyond the standard period set out in the firm's policy) when
 - engagements performed by the engagement partner have been subject to other monitoring activities during the standard period set out in the firm's policy, and
 - the results of the other monitoring activities provide sufficient information about the engagement partner; that is, performing the inspection of completed

engagements would unlikely provide the firm with further information about the engagement partner.

A166. The matters considered in an inspection of an engagement depend on how the inspection will be used to monitor the system of quality management. Ordinarily, the inspection of an engagement includes determining that responses that are implemented at the engagement level (for example, the firm's policies and procedures in respect of engagement performance) have been implemented as designed and are operating effectively.

The Relationship of Peer Review to Monitoring

A167. A peer review is not a substitute for all monitoring activities. However, because the objective of a peer review is similar to that of an inspection, the firm's quality management policies or procedures may provide that a peer review conducted under standards established by the AICPA may be a substitute for the inspection of engagement documentation, reports, and clients' financial statements for some or all engagements for the period covered by the peer review.

A168. A peer review may result in findings or deficiencies. However, the definitions of *findings* and *deficiencies* in this SQMS are different from the definitions of those terms in *AICPA Standards for Performing and Reporting on Peer Reviews*.¹⁸ Accordingly, findings and deficiencies may be evaluated differently for peer review purposes than for purposes of this SQMS. Findings or deficiencies identified in a firm's system of quality management may not necessarily result in a peer review finding or deficiency; similarly, peer review findings or deficiencies may not necessarily equate to findings or deficiencies in a firm's system of quality management. As with other items identified in the firm's monitoring activities, the firm would need to assess any peer review findings or deficiencies to determine the impact on the firm's evaluation of its system of quality management.

Individuals Performing the Monitoring Activities (Ref: par. 40)

A169. It is important that individuals performing the monitoring activities have the competence, capabilities, including sufficient time, and objectivity to perform the monitoring activities. Each of these attributes is equally essential. In some circumstances, there may not be personnel who have the competence, capabilities, including sufficient time, and objectivity to perform the monitoring activities. In these circumstances, the firm may use network services or a service provider to perform the monitoring activities.

A170. The provisions of relevant ethical requirements are relevant in designing the policies or procedures addressing the objectivity of the individuals performing the monitoring activities. A self-review threat may arise when an individual who performs an inspection of an engagement was an engagement team member or the engagement quality reviewer of that engagement. A self-review threat may also arise when an individual involved in operating the response to a quality risk is performing the monitoring of that response. For example, a self-review threat may arise if

¹⁸ Paragraphs 70 and 110, PRP section 1000, *AICPA Standards for Performing and Reporting on Peer Reviews* (AICPA, *Professional Standards*).

an individual responsible for accepting client engagements is also responsible for monitoring compliance with the firm's client acceptance policies and procedures.

A171. This SQMS does not preclude an individual from performing monitoring activities, including inspections, of their own compliance with a quality management system. However, such self-inspections may be less effective than compliance inspections by another qualified individual. When an individual inspects their own compliance with the firm's policies and procedures, the firm has a higher risk that noncompliance with policies and procedures will not be detected or reported. To effectively monitor one's own compliance, it is necessary that an individual be able to critically review their own performance, assess their own strengths and weaknesses, and maintain an attitude of continual improvement.

A172. Responses that may provide safeguards against the self-review threat and lessen the likelihood of deficiencies in the system of quality management include the following actions:

- Fostering a commitment to continuing professional education and providing effective training programs so that personnel stay current on accounting, auditing, and quality management standards
- Providing training on how to perform monitoring inspections and requiring the use of peer review or other inspection checklists
- Requiring the passage of time after the completion of an engagement before self-inspections are performed

A173. The firm may have responses in place to address quality risks other than the self-review threat that may be particularly helpful when self-inspections are performed, such as the following actions:

- Establishing strong client acceptance and engagement continuance policies that address the risk of the firm accepting or continuing engagements it doesn't have the competency and resources to perform
- Establishing consultation policies that require engagement teams to consult when they encounter technical accounting and auditing difficulties
- Taking corrective action in response to the results identified by the firm's internal monitoring, engagement quality reviews, peer review results or other external inspections; for example, inspections by the U.S. Department of Labor
- Requiring the use of an external service provider to perform engagement quality reviews or monitoring activities when
 - deficiencies identified by the firm's monitoring activities, peer reviewers, or other external inspections indicate that self-inspection is not effective, or
 - changes in conditions and the environment within the firm (such as obtaining clients in an industry not previously serviced or significantly changing the size of the firm) occur.

Evaluating Findings and Identifying Deficiencies (Ref: par. 17 and 41–42)

A174. The firm accumulates findings from the performance of monitoring activities, external inspections, and other relevant sources. Information accumulated by the firm from the monitoring

activities, external inspections, and other relevant sources may reveal other observations about the firm's system of quality management, such as

- actions, behaviors, or conditions that have given rise to positive outcomes in the context of quality or the effectiveness of the system of quality management, or
- similar circumstances in which no findings were noted (for example, engagements in which no findings were noted, and the engagements have a similar nature to the engagements in which findings were noted).

Other observations may be useful to the firm because they may assist the firm in investigating the root causes of identified deficiencies, indicate practices that the firm can support or apply more extensively (for example, across all engagements), or highlight opportunities for the firm to enhance the system of quality management.

A175. The firm exercises professional judgment in determining whether findings, individually or in combination with other findings, give rise to a deficiency in the system of quality management. In making the judgment, the firm may need to take into account the relative importance of the findings in the context of the quality objectives, quality risks, responses, or other aspects of the system of quality management to which they relate. The firm's judgments may be affected by quantitative and qualitative factors relevant to the findings. In some circumstances, the firm may determine it appropriate to obtain more information about the findings in order to determine whether a deficiency exists. Not all findings, including engagement findings, will be a deficiency.

A176. Examples of quantitative and qualitative factors that a firm may consider in determining whether findings give rise to a deficiency include the following:

Quality risks and responses

- If the findings relate to a response, factors such as the following:
 - How the response is designed; for example, the nature of the response, the frequency of its occurrence (if applicable), and the relative importance of the response to addressing the quality risks and achieving the quality objectives to which it relates
 - The nature of the quality risk to which the response relates and the extent to which the findings indicate that the quality risk has not been addressed
 - Whether there are other responses that address the same quality risk and whether there are findings for those responses

Nature of the findings and their pervasiveness

- The nature of the findings; for example, findings related to leadership actions and behaviors may be qualitatively significant, given the pervasive effect this could have on the system of quality management as a whole
- Whether the findings, in combination with other findings, indicate a trend or systemic issue; for example, similar engagement findings that appear on multiple engagements may indicate a systemic issue

Extent of Monitoring Activity and Extent of Findings

- The extent of the monitoring activity from which the findings arose, including the number or size of the selections.
- The extent of the findings in relation to the selection covered by the monitoring activity and in relation to the expected deviation rate; for example, in the case of inspection of engagements, the number of engagements selected in which the findings were identified relative to the total number of engagements selected, and the expected deviation rate set by the firm

A177. Evaluating findings and identifying deficiencies and evaluating the severity and pervasiveness of an identified deficiency, including investigating the root causes of an identified deficiency, are part of an iterative and nonlinear process. Examples follow:

- In investigating the root causes of an identified deficiency, the firm may identify a circumstance that has similarities to other circumstances in which there were findings that were not considered deficiencies. As a result, the firm adjusts its evaluation of the other findings and classifies them as deficiencies.
- In evaluating the severity and pervasiveness of an identified deficiency, the firm may identify a trend or systemic issue that correlates with other findings that are not considered deficiencies. As a result, the firm adjusts its evaluation of the other findings and also classifies them as deficiencies.

A178. The results of monitoring activities, results of external inspections, and other relevant information (for example, network monitoring activities or complaints and allegations) may reveal information about the effectiveness of the monitoring and remediation process. For example, the results of external inspections may provide information about the system of quality management that has not been identified by the firm's monitoring and remediation process, which may highlight a deficiency in that process.

Evaluating Identified Deficiencies (Ref: par. 42)

A179. Factors the firm may consider in evaluating the severity and pervasiveness of an identified deficiency include the following:

- The nature of the identified deficiency, including the aspect of the firm's system of quality management to which the deficiency relates, and whether the deficiency is in the design, implementation, or operation of the system of quality management
- In the case of identified deficiencies related to responses, whether there are compensating responses to address the quality risk to which the response relates
- The root causes of the identified deficiency
- The frequency with which the matter giving rise to the identified deficiency occurred
- The magnitude of the identified deficiency, how quickly it occurred, and the duration of time that it existed and had an effect on the system of quality management

A180. The severity and pervasiveness of identified deficiencies affects the evaluation of the system of quality management that is undertaken by the individual or individuals assigned ultimate responsibility and accountability for the system of quality management.

Root Cause of the Identified Deficiencies (Ref: par. 42a)

A181. The objective of investigating the root causes of identified deficiencies is to understand the underlying circumstances that caused the deficiencies to enable the firm to

- evaluate the severity and pervasiveness of the identified deficiency and
- appropriately remediate the identified deficiency.

Performing a root cause analysis involves the exercise of professional judgment based on the evidence available by those performing the assessment.

A182. The nature, timing, and extent of the procedures undertaken to understand the root causes of an identified deficiency may also be affected by the nature and circumstances of the firm, such as the following:

- The complexity and operating characteristics of the firm.
- The size of the firm.
- The geographical dispersion of the firm.
- How the firm is structured or the extent to which the firm concentrates or centralizes its processes or activities. For example, in the case of a less complex firm with a single location, the firm's procedures to understand the root causes of a deficiency may be simple because the information to inform the understanding may be readily available and concentrated, and the root causes may be more apparent. In the case of a more complex firm with multiple locations, the procedures to understand the root causes of a deficiency may include using individuals specifically trained on investigating the root causes of identified deficiencies and developing a methodology with more formalized procedures for identifying root causes.
- The nature of the identified deficiency. For example, the firm's procedures to understand the root causes of an identified deficiency may be more rigorous in circumstances when an engagement report related to an audit of financial statements was issued that was inappropriate, or the identified deficiency relates to leadership's actions and behaviors regarding quality.
- The possible severity of the identified deficiency. For example, the firm's procedures to understand the root causes of an identified deficiency may be more rigorous in circumstances in which the deficiency has been identified across multiple engagements, or there is an indication that policies or procedures have high rates of noncompliance.

A183. In investigating the root causes of identified deficiencies, the firm may consider why deficiencies did not arise in other circumstances that are of a similar nature to the matter to which the identified deficiency relates. Such information may also be useful in determining how to remediate an identified deficiency. For example, the firm may determine that a deficiency exists because similar findings have occurred across multiple engagements. However, the findings have not occurred in several other engagements within the same population being tested. By contrasting the engagements, the firm concludes that the root cause of the identified deficiency is a lack of appropriate involvement by the engagement partners at key stages of the engagements.

A184. Identifying root causes that are appropriately specific may support the firm's process for remediating identified deficiencies. For example, the firm may identify that engagement teams performing audits of financial statements are failing to obtain sufficient appropriate audit evidence on accounting estimates when management's assumptions have a high degree of subjectivity. Although the firm notes that these engagement teams are not maintaining appropriate professional skepticism, the underlying root cause of this issue may relate to another matter, such as a cultural environment that does not encourage engagement team members to question individuals with greater authority or insufficient direction, supervision, and review of the work performed on the engagements.

A185. In addition to investigating the root causes of identified deficiencies, the firm may also investigate the root causes of positive outcomes because doing so may reveal opportunities for the firm to improve, or further enhance, the system of quality management.

Responding to Identified Deficiencies (Ref: par. 43)

A186. The nature, timing, and extent of remedial actions may depend on a variety of other factors, including the following:

- The root causes
- The severity and pervasiveness of the identified deficiency and, therefore, the urgency with which it needs to be addressed
- The effectiveness of the remedial actions in addressing the root causes, such as whether the firm needs to implement more than one remedial action in order to effectively address the root causes, or needs to implement remedial actions as interim measures until the firm is able to implement more effective remedial actions

A187. In some circumstances, the remedial action may include establishing additional quality objectives, or quality risks or responses may be added or modified, because it is determined that they are not appropriate.

A188. In circumstances in which the firm determines that the root cause of an identified deficiency relates to a resource provided by a service provider, the firm may also

- consider whether to continue using the resource provided by the service provider, or
- communicate the matter to the service provider.

The firm is responsible for addressing the effect of the identified deficiency related to a resource provided by a service provider on the system of quality management and taking action to prevent the deficiency from recurring with respect to the firm's system of quality management. However, the firm is not ordinarily responsible for remediating the identified deficiency on behalf of the service provider or further investigating the root cause of the identified deficiency at the service provider.

Findings About a Particular Engagement (Ref: par. 46)

A189. AU-C section 585, *Consideration of Omitted Procedures After the Report Release Date*, addresses the auditor's responsibilities in circumstances in which procedures were omitted, or the report issued is inappropriate. In such circumstances relating to other assurance and attest engagements, the action taken by the firm may include the following:

- Consulting with appropriate individuals regarding the appropriate action

- Discussing the matter with management of the entity or those charged with governance
- Performing the omitted procedures

The actions taken by the firm do not relieve the firm of the responsibility to take further actions relating to the finding in the context of the system of quality management, including evaluating the findings to identify deficiencies and, when a deficiency exists, investigating the root causes of the identified deficiency.

Ongoing Communication Related to the Monitoring and Remediation (Ref: par. 47)

A190. The information communicated about the monitoring and remediation to the individual or individuals assigned ultimate responsibility and accountability for the system of quality management may be communicated on an ongoing basis or periodically. The individual or individuals may use the information in multiple ways. Examples follow:

- As a basis for further communications to personnel about the importance of quality
- To hold individuals accountable for their roles assigned to them
- To identify key concerns about the system of quality management in a timely manner

The information also provides a basis for the evaluation of the system of quality management, and conclusion thereon, as required by paragraphs 54–56.

Network Requirements or Network Services (Ref: par. 49)

A191. In some circumstances, the firm may belong to a network. Networks may establish requirements regarding the firm’s system of quality management or may make services or resources available that the firm may choose to implement or use in the design, implementation, and operation of its system of quality management. Such requirements or services may be intended to promote the consistent performance of quality engagements across the firms that belong to the network. The extent to which the network will provide the firm with quality objectives, quality risks, and responses that are common across the network will depend on the firm’s arrangements with the network.

A192. Examples of network requirements include the following:

- Requirements for the firm to include additional quality objectives or quality risks in the firm’s system of quality management that are common across the network firms.
- Requirements for the firm to include responses in the firm’s system of quality management that are common across the network firms. Such responses designed by the network may include network policies or procedures that specify the leadership roles and responsibilities, including how the firm is expected to assign authority and responsibility within the firm, or resources, such as network-developed methodologies for performing engagements or IT applications.
- Requirements that the firm be subject to the network’s monitoring activities. These monitoring activities may relate to network requirements (for example, monitoring that the firm has implemented the network’s methodology appropriately) or to the firm’s system of quality management in general.

A193. Examples of network services include services or resources that are optional for the firm to use in its system of quality management or in performing engagements, such as voluntary training programs, use of component auditors or specialists from within the network, or use of a service delivery center established at the network level, or by another network firm or group of network firms.

A194. The network may establish responsibilities for the firm in implementing the network requirements or network services. Examples follow:

- The firm is required to have certain IT infrastructure and IT processes in place to support an IT application provided by the network that the firm uses in the system of quality management.
- The firm is required to provide firm-wide training on the methodology provided by the network, including when updates are made to the methodology.

A195. The firm's understanding of the network requirements or network services and the firm's responsibilities relating to the implementation thereof may be obtained through inquiries of, or documentation provided by, the network about matters such as the following:

- The network's governance and leadership
- The procedures undertaken by the network in designing, implementing, and, if applicable, operating, the network requirements or network services
- How the network identifies and responds to changes that affect the network requirements or network services or other information, such as changes in the professional standards or information that indicates a deficiency in the network requirements or network services
- How the network monitors the appropriateness of the network requirements or network services, which may include through the network firms' monitoring activities, and the network's processes for remediating identified deficiencies

Network Requirements or Network Services in the Firm's System of Quality Management
(Ref: par. 50)

A196. The characteristics of the network requirements or network services are a condition, event, circumstance, action, or inaction in identifying and assessing quality risks. An example of a network requirement or network service that gives rise to a quality risk is as follows.

The network may require the firm to use an IT application for the acceptance and continuance of client relationships and specific engagements that is standardized across the network. This may give rise to a quality risk that the IT application does not address matters in local law or regulation that need to be considered by the firm in accepting and continuing client relationships and specific engagements.

A197. The purpose of the network requirements may include the promotion of consistent performance of quality engagements across the network firms. The firm may be expected by the network to implement the network requirements; however, the firm may need to adapt or supplement the network requirements such that they are appropriate for the nature and circumstances of the firm and its engagements.

A198. Examples of how the network requirements or network services may need to be adapted or supplemented include the following:

<i>Network requirement or network service</i>	<i>How the firm adapts or supplements the network requirement or network service</i>
The network requires the firm to include certain quality risks in the system of quality management so that all firms in the network address the quality risks. The network does not provide an assessment of the quality risks.	<p>As part of identifying and assessing quality risks, the firm assesses the quality risks that are required by the network.</p> <p>The firm also designs and implements responses to address the assessed quality risks that are required by the network.</p>
The network requires that the firm design and implement certain responses.	<p>As part of designing and implementing responses, the firm determines</p> <ul style="list-style-type: none"> • which assessed quality risks the responses address. • how the responses required by the network will be incorporated into the firm's system of quality management, given the nature and circumstances of the firm. This may include tailoring the response to reflect the nature and circumstances of the firm and the engagements performed by the firm (for example, tailoring a methodology to include matters related to law or regulation).
The firm uses individuals from other network firms as component auditors. Network requirements are in place that drive a high degree of commonality across the network firms' systems of quality management. The network requirements include specific	The firm establishes policies or procedures that require the engagement team to confirm with the component auditor (that is, the other network firm) that the individuals assigned to the component meet the specific criteria set out in the network requirements.

criteria that apply to individuals assigned to work on a component for a group audit.	
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A199. In some circumstances, in adapting or supplementing the network requirements or network services, the firm may identify possible improvements to the network requirements or network services and may communicate these improvements to the network.

Monitoring Activities Undertaken by the Network on the Firm’s System of Quality Management (Ref: par. 51c)

A200. The results of the network’s monitoring activities of the firm’s system of quality management may include information such as the following:

- A description of the monitoring activities, including their nature, timing, and extent
- Findings, identified deficiencies, and other observations about the firm’s system of quality management (for example, positive outcomes or opportunities for the firm to improve, or further enhance, the system of quality management)
- The network’s evaluation of the root causes of the identified deficiencies, the assessed effect of the identified deficiencies, and recommended remedial actions

Monitoring Activities Undertaken by the Network Across the Network Firms (Ref: par. 52b)

A201. The information from the network about the overall results of the network’s monitoring activities undertaken across the network firms’ systems of quality management may be an aggregation or summary of the information described in paragraph A193, including trends and common areas of identified deficiencies across the network, or positive outcomes that may be replicated across the network. Such information may

- be used by the firm
 - in identifying and assessing quality risks, and
 - as part of other relevant information considered by the firm in determining whether deficiencies exist in the network requirements or network services used by the firm in its system of quality management.
- be communicated to group engagement partners, in the context of considering the competence and capabilities of component auditors from a network firm who are subject to common network requirements (for example, common quality objectives, quality risks, and responses).

A202. In some circumstances, the firm may obtain information from the network about deficiencies identified in a network firm’s system of quality management that affects the firm. The network may also gather information from network firms regarding the results of external inspections over network firms’ systems of quality management. In some instances, law or regulation in a particular jurisdiction may prevent the network from sharing information with other network firms or may restrict the specificity of such information.

A203. In circumstances in which the network does not provide the information about the overall results of the network's monitoring activities across the network firms, the firm may take further actions, such as

- discussing the matter with the network, and
- determining the effect on the firm's engagements and communicating the effect to engagement teams.

Deficiencies in Network Requirements or Network Services Identified by the Firm (Ref: par. 53)

A204. As network requirements or network services used by the firm form part of the firm's system of quality management, they are also subject to the requirements of this SQMS regarding monitoring and remediation. The network requirements or network services may be monitored by the network, the firm, or a combination of both; for example, a network may undertake monitoring activities at a network level for a common methodology. The firm may also monitor the application of the methodology by engagement team members through performing engagement inspections.

A205. In designing and implementing the remedial actions to address the effect of the identified deficiency in the network requirements or network services, the firm may

- understand the planned remedial actions by the network, including whether the firm has any responsibilities for implementing the remedial actions, and
- consider whether supplementary remedial actions need to be taken by the firm to address the identified deficiency and the related root causes, such as when
 - the network has not taken appropriate remedial actions, or
 - the network's remedial actions will take time to effectively address the identified deficiency.

Evaluating the System of Quality Management (Ref: par. 54)

A206. The individual or individuals assigned ultimate responsibility and accountability for the system of quality management may be assisted by other individuals in performing the evaluation. Nevertheless, the individual or individuals assigned ultimate responsibility and accountability for the system of quality management remain responsible and accountable for the evaluation.

A207. The point in time at which the evaluation is undertaken may depend on the circumstances of the firm and may coincide with the fiscal year-end of the firm or the completion of an annual monitoring cycle.

A208. The information that provides the basis for the evaluation of the system of quality management includes the information communicated to the individuals assigned ultimate responsibility and accountability for the system of quality management in accordance with paragraph 47.

A209. An example of scalability to demonstrate how the information that provides the basis for the evaluation of the system of quality management may be obtained in firms of different complexity is as follows:

- In a less complex firm, the individual or individuals assigned ultimate responsibility and accountability for the system of quality management may be directly involved in the monitoring and remediation and, therefore, will be aware of the information that supports the evaluation of the system of quality management.
- In a more complex firm, the individual or individuals assigned ultimate responsibility and accountability for the system of quality management may need to establish processes to collate, summarize, and communicate the information needed to evaluate the system of quality management.

Concluding on the System of Quality Management (Ref: par. 55)

A210. In the context of this SQMS, it is intended that the operation of the system as a whole provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved. In concluding on the system of quality management, the individual or individuals assigned ultimate responsibility and accountability for the system of quality management may, in using the results of the monitoring and remediation process, consider the following:

- The severity and pervasiveness of identified deficiencies and the effect on the achievement of the objectives of the system of quality management
- Whether remedial actions have been designed and implemented by the firm and whether the remedial actions taken up to the time of the evaluation are effective
- Whether the effect of identified deficiencies on the system of quality management have been appropriately corrected, such as whether further actions have been taken in accordance with paragraph 46

A211. There may be circumstances in which identified deficiencies that are severe (including identified deficiencies that are severe and pervasive) have been appropriately remediated and the effect of them corrected at the point in time of the evaluation. In such cases, the individual or individuals assigned ultimate responsibility and accountability for the system of quality management may conclude that the system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved.

A212. An identified deficiency may have a pervasive effect on the design, implementation, and operation of the system of quality management when, for example, the deficiency

- affects several components or aspects of the system of quality management.
- is confined to a specific component or aspect of the system of quality management but is fundamental to the system of quality management.
- affects several business units or geographical locations of the firm.
- is confined to a business unit or geographical location, but the business unit or location affected is fundamental to the firm overall.
- affects a substantial portion of engagements that are of a certain type or nature.

A213. An example of an identified deficiency that may be considered severe but not pervasive is as follows:

The firm identifies a deficiency in one of its smaller regional offices. The identified deficiency relates to noncompliance with many firm policies or procedures. The firm determines that the culture in the regional office, particularly the actions and behavior of leadership in the regional office, which were overly focused on financial priorities, has contributed to the root cause of the identified deficiency. The firm determines that the effect of the identified deficiency is as follows:

- Severe, because it relates to the culture of the regional office and overall compliance with firm policies or procedures
- Not pervasive, because it is limited to the smaller regional office

A214. The individual or individuals assigned ultimate responsibility and accountability for the system of quality management may conclude that the system of quality management does not provide the firm with reasonable assurance that the objectives of the system of quality management are being achieved in circumstances in which identified deficiencies are severe and pervasive, actions taken to remediate the identified deficiencies are not appropriate, and the effect of the identified deficiencies have not been appropriately corrected.

A215. An example of an identified deficiency that may be considered severe and pervasive is as follows:

The firm identifies a deficiency in a regional office, which is the firm's largest office and provides financial, operational, and technical support for the entire region. The identified deficiency relates to noncompliance with many firm policies or procedures. The firm determines that the culture in the regional office, particularly the actions and behavior of leadership in the regional office, which were overly focused on financial priorities, has contributed to the root cause of the identified deficiency. The firm determines that the effect of the identified deficiency is as follows:

- Severe, because it relates to the culture of the regional office and overall compliance with firm policies or procedures
- Pervasive, because the regional office is the largest office and provides support to many other offices, and the noncompliance with firm policies or procedures may have had a broader effect on the other offices

A216. It may take time for the firm to remediate identified deficiencies that are severe and pervasive. As the firm continues to take action to remediate the identified deficiencies, the pervasiveness of the identified deficiencies may be diminished, and it may be determined that the identified deficiencies are still severe but no longer severe and pervasive. In such cases, the individual or individuals assigned ultimate responsibility and accountability for the system of quality management may conclude that, except for matters related to identified deficiencies that have a severe but not pervasive effect on the design, implementation, and operation of the system of quality management, the system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved.

A217. This SQMS does not require the firm to obtain an independent evaluation (for example, a peer review report or report on service organization controls) on its system of quality management annually or preclude the firm from doing so.

Taking Prompt and Appropriate Action and Further Communication (Ref: par. 56)

A218. In circumstances in which the individual or individuals assigned ultimate responsibility and accountability for the system of quality management reach the conclusion described in paragraph 55*b* or 55*c*, the prompt and appropriate action taken by the firm may include the following:

- Taking measures to support performing engagements through assigning more resources or developing more guidance and to confirm that reports issued by the firm are appropriate in the circumstances, until such time as the identified deficiencies are remediated, and communicating such measures to engagement teams
- Obtaining legal advice

A219. In some circumstances, the firm may have an independent governing body that has nonexecutive oversight of the firm. In such circumstances, communications may include informing the independent governing body.

A220. Examples of circumstances in which it may be appropriate for the firm to communicate to external parties about the evaluation of the system of quality management include the following:

- When the firm belongs to a network
- When other network firms use the work performed by the firm, for example, in the case of a group audit
- When a report issued by the firm is determined by the firm to be inappropriate as a result of the failure of the system of quality management, and management or those charged with governance of the entity need to be informed
- When law or regulation requires the firm to communicate to an oversight authority or a regulatory body

Performance Evaluations (Ref: par. 57)

A221. Periodic performance evaluations promote accountability. In considering the performance of an individual, the firm may take the following into account:

- The results of the firm's monitoring activities for aspects of the system of quality management that relate to the responsibility of the individual. In some circumstances, the firm may set targets for the individual and measure the results of the firm's monitoring activities against those targets.
- The actions taken by the individual in response to identified deficiencies that relate to the responsibility of that individual, including the timeliness and effectiveness of such actions.

A222. An example of scalability to demonstrate how firms of different complexity may undertake the performance evaluations is as follows:

- In a less complex firm, the firm may engage a service provider to perform the evaluation, or the results of the firm's monitoring activities may provide an indication of the performance of the individual.
- In a more complex firm, the performance evaluations may be undertaken by an independent nonexecutive member of the firm's governing body or a special committee overseen by the firm's governing body.

A223. A positive performance evaluation may be rewarded through compensation, promotion, and other incentives that focus on the individual's commitment to quality and reinforce accountability. On the other hand, the firm may take corrective actions to address a negative performance evaluation that may affect the firm's achievement of its quality objectives.

Documentation (Ref: par. 58–60)

A224. Documentation provides evidence that the firm complies with this SQMS, as well as law, regulation, or relevant ethical requirements. It may also be useful for training personnel and engagement teams, ensuring the retention of organizational knowledge, and providing a history of the basis for decisions made by the firm about its system of quality management. It is neither necessary nor practicable for the firm to document every matter considered, or judgment made, about its system of quality management. Furthermore, compliance with this SQMS may be evidenced by the firm through its information and communication component, documents or other written materials, or IT applications that are integral to the components of the system of quality management.

A225. Documentation may be formal (for example, written manuals, checklists, and forms), informal (for example, email communication or postings on websites), or held in IT applications or other digital forms (for example, in databases). Factors that may affect the firm's judgments about the form, content, and extent of documentation, including how often documentation is updated, may include the following:

- The complexity of the firm and the number of offices
- The nature and complexity of the firm's practice and organization
- The nature of engagements the firm performs and the nature of the entities for whom engagements are performed
- The nature and complexity of the matter being documented, such as whether it relates to an aspect of the system of quality management that has changed or an area of greater quality risk, and the complexity of the judgments relating to the matter
- The frequency and extent of changes in the system of quality management

In a less complex firm, it may not be necessary to have documentation supporting matters communicated because informal communication methods may be effective. Nevertheless, a less complex firm may determine it appropriate to document such communications in order to provide evidence that they occurred.

A226. In some instances, an external oversight authority may establish documentation requirements, either formally or informally, for example, as a result of the outcome of external

inspection findings. Relevant ethical requirements may also include specific requirements addressing documentation; for example, the AICPA code requires documentation of particular matters, including certain situations related to conflicts of interest, noncompliance with laws and regulations, and independence.

A227. The firm is not required to document the consideration of every condition, event, circumstance, action, or inaction for each quality objective or each risk that may give rise to a quality risk. However, in documenting the quality risks and how the firm's responses address the quality risks, the firm may document the reasons for the assessment given to the quality risks (that is, the considered occurrence and effect on the achievement of one or more quality objectives) to support the consistent implementation and operation of the responses.

A228. The documentation may be provided by the network, other network firms, or other structures or organizations within the network.



***Statement on
Quality Management Standards***

June 2022

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Issued by the Auditing Standards Board

Engagement Quality Reviews

(AICPA, Professional Standards, QM sec. 20)

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¹ All ET sections can be found in AICPA *Professional Standards*.

Conduct requires compliance with these standards when firms perform auditing and accounting services for a nonissuer.

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Statement on Quality Management Standards No. 2, *Engagement Quality Reviews*

Introduction

Scope of This Statement on Quality Management Standards

1. This Statement on Quality Management Standards (SQMS) addresses the following:
 - a. The appointment and eligibility of the engagement quality reviewer
 - b. The engagement quality reviewer's responsibilities relating to the performance and documentation of an engagement quality review
2. This SQMS applies to all engagements for which an engagement quality review is required to be performed in accordance with SQMS No. 1, *A Firm's System of Quality Management*, including when the firm has determined that an engagement quality review is an appropriate response to assessed quality risks.¹ This SQMS is to be read in conjunction with the AICPA Code of Professional Conduct (AICPA code) and other relevant ethical requirements.
3. An engagement quality review performed in accordance with this SQMS is a specified response that is designed and implemented by the firm in accordance with SQMS No. 1.² The performance of an engagement quality review is undertaken at the engagement level by the engagement quality reviewer on behalf of the firm.

Scalability

4. The nature, timing, and extent of the engagement quality reviewer's procedures required by this SQMS vary depending on the nature and circumstances of the engagement or the entity. For example, for engagements involving fewer significant judgments made by the engagement team, the engagement quality reviewer's procedures would likely be less extensive.

The Firm's System of Quality Management and Role of Engagement Quality Reviews

5. SQMS No. 1 establishes the firm's responsibilities for its system of quality management and requires the firm to design and implement responses to address the quality risks in a manner that is based on, and responsive to, the reasons for the assessments given to the quality risks.³ The specified responses in SQMS No. 1⁴ include establishing policies or procedures addressing engagement quality reviews in accordance with this SQMS.
6. The firm is responsible for designing, implementing, and operating the system of quality management. Under SQMS No. 1, the objective of the firm is to design, implement, and operate a system of quality management for engagements performed by the firm in its accounting and auditing

¹ Paragraph 35f of Statement on Quality Management Standards (SQMS) (previously Statement on Quality Control Standards) No. 1, *A Firm's System of Quality Management*.

² See footnote 1.

³ Paragraph 25 of SQMS No. 1.

⁴ Paragraph 35f of SQMS No. 1.

practice⁵ that provides the firm with reasonable assurance that

- a. the firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
- b. engagement reports issued by the firm or engagement partners are appropriate in the circumstances.⁶

7. As explained in SQMS No. 1, the public interest is served by the consistent performance of quality engagements. Quality engagements are achieved through planning and performing engagements and reporting on them in accordance with professional standards and applicable legal and regulatory requirements. Achieving the objectives of those standards and complying with the requirements of applicable law or regulation involves exercising professional judgment and, when applicable to the type of engagement, maintaining professional skepticism.

8. An engagement quality review is an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon. The engagement quality reviewer's evaluation of significant judgments is performed in the context of professional standards and applicable legal and regulatory requirements. However, an engagement quality review is not intended to be an evaluation of whether the entire engagement complies with professional standards and applicable legal and regulatory requirements or with the firm's policies or procedures.

9. The engagement quality reviewer is not a member of the engagement team. The performance of an engagement quality review does not change the responsibilities of the engagement partner for managing and achieving quality on the engagement or for the direction and supervision of the members of the engagement team and the review of their work. The engagement quality reviewer is not required to obtain evidence to support the opinion or conclusion on the engagement, but the engagement team may obtain further evidence in responding to matters raised during the engagement quality review.

Authority of This SQMS

10. This SQMS contains the objective for the firm in following this SQMS and requirements designed to enable the firm and the engagement quality reviewer to meet that stated objective. In addition, it contains related guidance in the form of application and other explanatory material and introductory material that provides context relevant to a proper understanding of this SQMS and definitions. SQMS No. 1⁷ explains the terms *objective*, *requirements*, *application material* and *other explanatory material*, *introductory material*, and *definitions*.

Effective Date

11. This SQMS is effective for

- a. audits or reviews of financial statements for periods beginning on or after December 15, 2025, and

⁵ The term *auditing and accounting practice* is defined in paragraph 17a of SQMS No. 1.

⁶ Paragraph 15 of SQMS No. 1.

⁷ Paragraphs 12 and A6–A9 of SQMS No. 1.

- b. other engagements in the firm's accounting and auditing practice beginning on or after December 15, 2025.

Objective

12. The objective of the firm, through appointing an eligible engagement quality reviewer, is to perform an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon.

Definitions

13. For purposes of the SQMSs, the following terms have the meanings attributed as follows:

Engagement quality review. An objective evaluation of the significant judgments made by the engagement team, and the conclusions reached thereon, performed by the engagement quality reviewer and completed before the engagement report is released.

Engagement quality reviewer. A partner, other individual in the firm, or an external individual appointed by the firm to perform the engagement quality review.

Relevant ethical requirements. Principles of professional ethics and ethical requirements to which the engagement team and engagement quality reviewer, when undertaking an engagement quality review, 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. (Ref: par. A11–A14)

Requirements

Applying, and Complying With, Relevant Requirements

14. The firm and the engagement quality reviewer should have an understanding of this SQMS, including the application and other explanatory material, to understand the objective of this SQMS and to properly apply the requirements relevant to them.

15. The firm or the engagement quality reviewer, as applicable, should comply with each requirement of this SQMS, unless the requirement is not relevant in the circumstances of the engagement.

16. The proper application of the requirements is expected to provide a sufficient basis for the achievement of the objective of this standard. However, if the firm or the engagement quality reviewer determines that the application of the relevant requirements does not provide a sufficient basis for the achievement of the objective of this standard, the firm or the engagement quality reviewer, as applicable, should take further actions to achieve the objective.

Appointment and Eligibility of Engagement Quality Reviewers

17. The firm should establish policies or procedures that require the assignment of responsibility for the appointment of engagement quality reviewers to an individual or individuals with the competence, capabilities, and appropriate authority within the firm to fulfill the

responsibility. Those policies or procedures should require such individual or individuals to appoint the engagement quality reviewer. (Ref: par. A1–A3)

18. The firm should establish policies or procedures that set forth the criteria for eligibility to be appointed as an engagement quality reviewer. Those policies or procedures should require that the engagement quality reviewer (Ref: par. A4)

- a.* not be a member of the engagement team;
- b.* have the competence and capabilities, including sufficient time, and the appropriate authority to perform the engagement quality review; (Ref: par. A5–A10)
- c.* comply with relevant ethical requirements, including those addressing threats to the objectivity and independence of the engagement quality reviewer; and (Ref: par. A11–A13)
- d.* comply with provisions of law and regulation, if any, that are relevant to the eligibility of the engagement quality reviewer. (Ref: par. A14)

19. The firm’s policies or procedures established in accordance with paragraph 18c should also address threats to objectivity created by an individual being appointed as the engagement quality reviewer after previously serving as the engagement partner. (Ref: par. A15–A17)

20. The firm should establish policies or procedures that set forth the criteria for eligibility of individuals who assist the engagement quality reviewer. Those policies or procedures should require that such individuals

- a.* not be members of the engagement team;
- b.* have the competence and capabilities, including sufficient time, to perform the duties assigned to them; and (Ref: par. A18)
- c.* comply with relevant ethical requirements, including addressing threats to their objectivity and independence and, if applicable, the provisions of law and regulation. (Ref: par. A19–A20)

21. The firm should establish policies or procedures that

- a.* require the engagement quality reviewer to take overall responsibility for the performance of the engagement quality review and
- b.* address the engagement quality reviewer’s responsibility for determining the nature, timing, and extent of the direction and supervision of individuals assisting in the engagement quality review and the review of their work. (Ref: par. A21)

Impairment of the Engagement Quality Reviewer’s Eligibility to Perform the Engagement Quality Review

22. The firm should establish policies or procedures that address circumstances in which the engagement quality reviewer’s eligibility to perform the engagement quality review is impaired and the appropriate actions to be taken by the firm, including the process for identifying and appointing a replacement in such circumstances. (Ref: par. A22)

23. When the engagement quality reviewer becomes aware of circumstances that impair the engagement quality reviewer's eligibility, the engagement quality reviewer should notify the appropriate individual or individuals in the firm and, (Ref: par. A23)

- a.* if the engagement quality review has not commenced, decline the appointment to perform the engagement quality review, or
- b.* if the engagement quality review has commenced, discontinue the performance of the engagement quality review.

Performance of the Engagement Quality Review

24. The firm should establish policies or procedures regarding the performance of the engagement quality review that address the following:

- a.* The engagement quality reviewer's responsibilities to perform procedures in accordance with paragraphs 25–26 at appropriate points in time during the engagement to provide an appropriate basis for an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon
- b.* The responsibilities of the engagement partner in relation to the engagement quality review, including that the engagement partner is precluded from releasing the engagement report until notification has been received from the engagement quality reviewer, in accordance with paragraph 27, that the engagement quality review is complete (Ref: par. A24–A26)
- c.* Circumstances in which the nature and extent of engagement team discussions with the engagement quality reviewer about a significant judgment give rise to a threat to the objectivity of the engagement quality reviewer and appropriate actions to take in these circumstances (Ref: par. A27)

25. In performing the engagement quality review, the engagement quality reviewer should do the following: (Ref: par. A28–A33)

- a.* Read, and obtain an understanding about, information communicated by (Ref: par. A34)
 - i.* the engagement team regarding the nature and circumstances of the engagement and the entity and
 - ii.* the firm related to the firm's monitoring and remediation process, in particular, identified deficiencies that may relate to, or affect, the areas involving significant judgments made by the engagement team.
- b.* Discuss with the engagement partner and, if applicable, other members of the engagement team, significant matters and significant judgments made in planning, performing, and reporting on the engagement. (Ref: par. A35–A38)
- c.* Based on the information obtained in (*a*) and (*b*), review selected engagement documentation relating to significant judgments made by the engagement team and evaluate the following: (Ref: par. A39–A43)

- i. The basis for making those significant judgments, including, when applicable to the type of engagement, the maintenance of professional skepticism by the engagement team
 - ii. Whether the engagement documentation supports the conclusions reached
 - iii. Whether the conclusions reached are appropriate
- d. Evaluate the basis for the engagement partner's determination that relevant ethical requirements relating to independence, when applicable, have been fulfilled. (Ref: par. A44)
- e. Evaluate whether appropriate consultation has taken place on difficult or contentious matters or matters involving differences of opinion and the conclusions arising from those consultations. (Ref: par. A45)
- f. For engagements conducted in accordance with generally accepted auditing standards, evaluate the basis for the engagement partner's determination that the engagement partner's involvement has been sufficient and appropriate throughout the engagement such that the engagement partner has the basis for determining that the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the engagement. (Ref: par. A46–A47)
- g. Review,
 - i. for audits of financial statements, the financial statements and the auditor's report thereon, including, if applicable, the description of the key audit matters; (Ref: par. A48)
 - ii. for reviews of financial statements or financial information, the financial statements or financial information and the review report thereon; or (Ref: par. A48)
 - iii. for other engagements, the engagement report, and when applicable, the subject matter information. (Ref: par. A49)

26. The engagement quality reviewer should notify the engagement partner if the engagement quality reviewer has concerns that the significant judgments made by the engagement team, including the appropriate maintenance of professional skepticism by the engagement team when applicable to the type of engagement, or the conclusions reached thereon, are not appropriate. If such concerns are not resolved to the engagement quality reviewer's satisfaction, the engagement quality reviewer should notify the appropriate individual or individuals in the firm that the engagement quality review cannot be completed. (Ref: par. A50)

Completion of the Engagement Quality Review

27. The engagement quality reviewer should determine whether the requirements in this SQMS with respect to the performance of the engagement quality review have been fulfilled and

whether the engagement quality review is complete. If so, the engagement quality reviewer should notify the engagement partner that the engagement quality review is complete.

Documentation

28. The firm should establish policies or procedures that require the engagement quality reviewer to take responsibility for documentation of the engagement quality review. (Ref: par. A51)

29. The firm should establish policies or procedures that require documentation of the engagement quality review in accordance with paragraph 30 and require that such documentation be included with the engagement documentation.

30. The engagement quality reviewer should determine that the documentation of the engagement quality review is sufficient to enable an experienced practitioner, having no previous connection with the engagement, to understand the nature, timing, and extent of the procedures performed by the engagement quality reviewer and, when applicable, individuals who assisted the reviewer and to understand the conclusions reached in performing the review. In doing so, the engagement quality reviewer should determine that the documentation of the engagement quality review includes the following: (Ref: par. A52–A54)

- a.* The names of the engagement quality reviewer and any individuals who assisted with the engagement quality review
- b.* An identification of the engagement documentation reviewed
- c.* The basis for the engagement quality reviewer's determination in accordance with paragraph 27
- d.* The notifications required in accordance with paragraphs 26 and 27
- e.* The date of completion of the engagement quality review

Application and Other Explanatory Material

Appointment and Eligibility of Engagement Quality Reviewers

Assignment of Responsibility for the Appointment of Engagement Quality Reviewers (Ref: par. 17)

A1. Competence and capabilities that are relevant to an individual's ability to fulfill responsibility for the appointment of the engagement quality reviewer may include appropriate knowledge about the following:

- The responsibilities of an engagement quality reviewer
- The criteria in paragraphs 18–19 regarding the eligibility of engagement quality reviewers
- The nature and circumstances of the engagement or the entity subject to an engagement quality review, including the composition of the engagement team

A2. The firm’s policies or procedures may specify that the individual responsible for the appointment of engagement quality reviewers not be a member of the engagement team for which an engagement quality review is to be performed. However, in certain circumstances (for example, in the case of a smaller firm or a sole practitioner), it may not be practicable for an individual other than a member of the engagement team to appoint the engagement quality reviewer.

A3. The firm may assign more than one individual to be responsible for appointing engagement quality reviewers. For example, the firm’s policies or procedures may specify a different process for appointing engagement quality reviewers for audits of financial statements than for attestation examination engagements or other engagements, with different individuals responsible for each process.

Eligibility of the Engagement Quality Reviewer (Ref: par. 18)

A4. In some circumstances, for example, in the case of a smaller firm or a sole practitioner, there may not be a partner or other individual in the firm who is eligible to perform the engagement quality review. In these circumstances, the firm may contract with, or obtain the services of, individuals external to the firm to perform the engagement quality review. An individual external to the firm may be a partner or an employee of a network firm, a structure or organization within the firm’s network, or a service provider. When using such an individual, the provisions in SQMS No. 1 addressing network requirements or network services or service providers apply.

Eligibility Criteria for the Engagement Quality Reviewer

Competence and Capabilities, Including Sufficient Time (Ref: par. 18a)

A5. SQMS No. 1 describes characteristics related to competence, including the integration and application of technical competence, professional skills, and professional ethics, values, and attitudes.⁸ Characteristics that the firm may consider in determining that an individual has the necessary competence to perform an engagement quality review include, for example, the following:

- An understanding of professional standards and applicable legal and regulatory requirements and the firm’s policies or procedures relevant to the engagement
- Knowledge of the entity’s industry
- An understanding of, and experience relevant to, engagements of a similar nature and complexity
- An understanding of the responsibilities of the engagement quality reviewer in performing and documenting the engagement quality review, which may be attained or enhanced by receiving relevant training from the firm

A6. The conditions, events, circumstances, actions, or inactions considered by the firm in determining that an engagement quality review is an appropriate response to address one or more quality risks⁹ may be important to the firm’s determination of the competence and capabilities required to perform the engagement quality review for that engagement. Other considerations that the firm may take into account in determining whether the engagement quality reviewer has the competence and

⁸ Paragraph A92 of SQMS No. 1.

⁹ See footnote 8.

capabilities, including sufficient time, needed to evaluate the significant judgments made by the engagement team and the conclusions reached thereon include, for example, the following:

- The nature of the entity
- The specialization and complexity of the industry or regulatory environment in which the entity operates
- The extent to which the engagement relates to matters requiring specialized expertise (for example, with respect to IT or specialized areas of accounting or auditing), or scientific and engineering expertise, which may be needed for certain assurance engagements (Also see paragraph A19.)

A7. In evaluating the competence and capabilities of an individual who may be appointed as an engagement quality reviewer, the findings arising from the firm's monitoring activities (for example, findings from the inspection of engagements for which the individual was an engagement team member or engagement quality reviewer) or the results of external inspections may also be relevant considerations.

A8. A lack of appropriate competence or capabilities affects the ability of the engagement quality reviewer to exercise appropriate professional judgment in performing the review. For example, an engagement quality reviewer who lacks relevant industry experience may not possess the ability or confidence necessary to evaluate and, when appropriate, challenge significant judgments made and the maintenance of professional skepticism by the engagement team on a complex, industry-specific accounting or auditing matter.

Appropriate Authority (Ref: par. 18a)

A9. Actions at the firm level help to establish the authority of the engagement quality reviewer. For example, when the firm has created a culture of respect for the role of the engagement quality reviewer, the engagement quality reviewer is less likely to experience pressure from the engagement partner or other personnel to inappropriately influence the outcome of the engagement quality review. In some cases, the engagement quality reviewer's authority may be enhanced by the firm's policies or procedures to address differences of opinion, which may include actions the engagement quality reviewer may take when a disagreement occurs between the engagement quality reviewer and the engagement team.

A10. The authority of the engagement quality reviewer may be diminished when

- the culture within the firm promotes respect for authority only for personnel at a higher level of hierarchy within the firm.
- the engagement quality reviewer has a reporting line to the engagement partner, for example, when the engagement partner holds a leadership position in the firm or is responsible for determining the compensation of the engagement quality reviewer.

Relevant Ethical Requirements (Ref: par. 13c and 18b)

A11. The relevant ethical requirements that are applicable when undertaking an engagement quality review may vary, depending on the nature and circumstances of the engagement or the entity. Various provisions of relevant ethical requirements may apply to an individual, such as an engagement quality reviewer, and not the firm itself. For example, if a firm uses an external provider to perform an

engagement quality review, that individual may be subject to independence requirements; however, the independence requirements imposed on that individual as a result of performing the engagement quality review may not extend to the entire firm for which that individual works.

Threats to the Objectivity of the Engagement Quality Reviewer

A12. Threats to the engagement quality reviewer's objectivity may be created by a broad range of facts and circumstances. Examples follow:

- A self-review threat may be created when the engagement quality reviewer previously was involved with significant judgments made by the engagement team, in particular, as the engagement partner or another engagement team member.
- A familiarity or self-interest threat may arise when the engagement quality reviewer is a close or immediate family member of the engagement partner or another member of the engagement team, or through close personal relationships with members of the engagement team.
- An intimidation threat may be created when actual or perceived pressure is exerted on the engagement quality reviewer (for example, when the engagement partner is an aggressive or dominant individual, or the engagement quality reviewer has a reporting line to the engagement partner).

A13. Relevant ethical requirements may include requirements and guidance to identify, evaluate, and address threats to objectivity. They may also include provisions that address threats to independence created by long association with an audit or assurance client.

Law or Regulation Relevant to the Eligibility of the Engagement Quality Reviewer (Ref: par 18c)

A14. Law or regulation may prescribe additional requirements regarding the eligibility of the engagement quality reviewer. For example, the audit requirements of the FDIC regulations¹⁰ for certain financial institutions require the auditor (which includes the engagement quality reviewer) to be in compliance with the AICPA's Code of Professional Conduct and also meet the independence requirements and interpretations of the SEC and its staff.

Considerations Related to Assigning the Previous Engagement Partner as Engagement Quality Reviewer (Ref: par. 19)

A15. In recurring engagements, the matters on which significant judgments are made often do not vary. Therefore, significant judgments made in prior periods may continue to affect judgments of the engagement team in subsequent periods. Therefore, the ability of an engagement quality reviewer to perform an objective evaluation of significant judgments is affected when the individual was previously involved with those judgments as the engagement partner. In such circumstances, it is important that appropriate safeguards are put in place to reduce threats to objectivity, in particular, the self-review threat, to an acceptable level. The following factors may be taken into consideration when designing policies or procedures to maintain the objectivity of

¹⁰ See Title 12, Chapter III, Subchapter B, Part 363.3(f) of the U.S. *Code of Federal Regulations*.

an engagement quality reviewer who served as the engagement partner on the previous year's engagement:

- The extent of changes in the matters on which significant judgments are made and the facts and circumstances around those significant judgments compared to the period or periods in which the individual was the engagement partner. For example, if a business combination with a material effect on the financial statements has occurred, the significant judgments made in the current period may vary from those of the prior period to such an extent that an objective evaluation of those judgments could be made by the individual who served as the engagement partner in the previous period.
- The incentives and disincentives within the firm that may affect the objectivity of the engagement quality reviewer.

A16. A firm may establish policies or procedures that limit the eligibility to be appointed as engagement quality reviewers of individuals who previously served as the engagement partner, for example, by establishing a specified cooling-off period during which the engagement partner is precluded from being appointed as the engagement quality reviewer. Determining a suitable cooling-off period depends on the facts and circumstances of the engagement.

A17. The firm's policies or procedures may also address whether a cooling-off period is appropriate for an individual other than the engagement partner before becoming eligible to be appointed as the engagement quality reviewer on that engagement. In this regard, the firm may consider the nature of that individual's role and previous involvement with the significant judgments made on the engagement. For example, the firm may determine that an engagement partner responsible for the performance of audit procedures on the financial information of a component in a group audit engagement may not be eligible to be appointed as the group engagement quality reviewer because of that audit partner's involvement in the significant judgments affecting the group audit engagement.

Circumstances in Which the Engagement Quality Reviewer Uses Assistants (Ref: par. 20-21)

A18. In certain circumstances, it may be appropriate for the engagement quality reviewer to be assisted by an individual or team of individuals. For example, assistance from individuals with highly specialized knowledge, skills, or expertise may be useful for understanding certain transactions undertaken by the entity to help the engagement quality reviewer evaluate the significant judgments made by the engagement team related to those transactions.

A19. The guidance in paragraph A14 may be helpful to the firm when establishing policies or procedures that address threats to objectivity of individuals who assist the engagement quality reviewer.

A20. When the engagement quality reviewer is assisted by an individual external to the firm, the assistant's responsibilities, including those related to compliance with relevant ethical requirements, may be set out in the contract or other agreement between the firm and the assistant.

A21. The firm's policies or procedures may include responsibilities of the engagement quality reviewer to

- consider whether assistants understand their instructions and whether the work is being carried out in accordance with the planned approach to the engagement quality review and
- address matters raised by assistants, considering their significance and modifying the planned approach appropriately.

Impairment of the Engagement Quality Reviewer's Eligibility to Perform the Engagement Quality Review (Ref: par. 22–23)

A22. Factors that may be relevant to the firm in considering whether the eligibility of the engagement quality reviewer to perform the engagement quality review is impaired include the following:

- Whether changes in the circumstances of the engagement result in the engagement quality reviewer no longer having the appropriate competence and capabilities to perform the review
- Whether changes in the other responsibilities of the engagement quality reviewer indicate that the individual no longer has sufficient time to perform the review
- Notification from the engagement quality reviewer in accordance with paragraph 23

A23. In circumstances in which the engagement quality reviewer's eligibility to perform the engagement quality review becomes impaired, the firm's policies or procedures may set out a process by which alternative eligible individuals are identified. The firm's policies or procedures may also address the responsibility of the individual appointed to replace the engagement quality reviewer to perform procedures sufficient to fulfill the requirements of this SQMS with respect to the performance of the engagement quality review. Such policies or procedures may further address the need for consultation in such circumstances and may include, for example, the following:

- Evaluation of whether procedures performed by the previous engagement quality reviewer could be relied on by the newly assigned engagement quality reviewer or whether all work would need to be reperformed
- Consideration of the effect of an engagement quality review assistant on the transition, when such assistant has been involved in the engagement quality review prior to transition
- Procedures undertaken by the engagement team to inform the newly assigned engagement quality reviewer about planning meeting discussions that have already occurred and other matters in which the previous engagement quality reviewer had been involved
- Documentation of the circumstances necessitating the change

Performance of the Engagement Quality Review (Ref: par. 24–27)

Engagement Partner Responsibilities in Relation to the Engagement Quality Review (Ref: par. 24b)

A24. Statement on Auditing Standards (SAS) No. 146, *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*¹¹ establishes the requirements for the engagement partner in audit engagements for which an engagement quality review is required, including the following:

- Determining that an engagement quality reviewer has been appointed
- Cooperating with the engagement quality reviewer and informing other members of the engagement team of their responsibility to do so
- Discussing significant matters and significant judgments arising during the audit engagement, including those identified during the engagement quality review, with the engagement quality reviewer
- Not releasing the auditor's report until the completion of the engagement quality review

A25. Professional standards include requirements that address the engagement report date. When the engagement quality review is completed after the report date, there may be instances in which the date of the report is required to be changed because additional procedures are needed or additional evidence is required. In such instances, the report date is changed to the date when the additional procedures have been satisfactorily completed or the additional evidence has been obtained, in accordance with the professional standards applicable to the engagement. The need to change a report date may be indicative of a deficiency or deficiencies in the firm's system of quality management.

A26. AT-C section 105, *Concepts Common to All Attestation Engagements*,^{12,*} also establishes requirements for the engagement partner in relation to the engagement quality review.

Discussions Between the Engagement Quality Reviewer and the Engagement Team (Ref: par. 24c)

A27. Frequent communication between the engagement team and engagement quality reviewer throughout the engagement may assist in facilitating an effective and timely engagement quality review. However, a threat to the objectivity of the engagement quality reviewer may be created depending on the timing and extent of the discussions with the engagement team about a significant judgment. The firm's policies or procedures may set out the actions to be taken by the engagement quality reviewer or the engagement team to avoid situations in which the engagement quality reviewer is, or may be perceived to be, making decisions on behalf of the engagement team. For example, in these circumstances, the firm may require consultation about such significant judgments with other relevant personnel in accordance with the firm's consultation policies or procedures.

¹¹ Paragraph 36 of Statement on Auditing Standards (SAS) No. 146, *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*.

¹² Paragraph 45 of AT-C section 105, *Concepts Common to All Engagements*.

* All AT-C sections can be found in AICPA *Professional Standards*.

Procedures Performed by the Engagement Quality Reviewer (Ref: par. 25–27)

A28. The firm’s policies or procedures may specify the nature, timing, and extent of the procedures performed by the engagement quality reviewer and also may emphasize the importance of the engagement quality reviewer exercising professional judgment in performing the review.

A29. The timing of the procedures performed by the engagement quality reviewer may depend on the nature and circumstances of the engagement or the entity, including the nature of the matters subject to the review. Timely review of the engagement documentation by the engagement quality reviewer throughout all stages of the engagement (for example, planning, performing, and reporting) allows matters to be promptly resolved to the engagement quality reviewer’s satisfaction before the release of the engagement report. For example, the engagement quality reviewer may perform procedures in relation to the overall strategy and plan for the engagement at the completion of the planning phase. Timely performance of the engagement quality review may also reinforce the exercise of professional judgment and, when applicable to the type of engagement, maintenance of professional skepticism by the engagement team in planning and performing the engagement.

A30. The nature and extent of the engagement quality reviewer’s procedures for a specific engagement may depend on the following, among other factors:

- The reasons for the assessments given to quality risks,¹³ for example, engagements performed for entities in emerging industries or with complex transactions.
- Identified deficiencies, and the remedial actions to address the identified deficiencies, related to the firm’s monitoring and remediation process and any related guidance issued by the firm, which may indicate areas where more extensive procedures need to be performed by the engagement quality reviewer.
- The complexity of the engagement.
- The nature and size of the entity, including whether the entity is a listed entity.
- Findings relevant to the engagement, such as the results of inspections undertaken by an external oversight authority in a prior period, or other concerns raised about the quality of the work of the engagement team.
- Information obtained from the firm’s acceptance and continuance of client relationships and specific engagements.
- For assurance engagements, the engagement team’s identification and assessment of, and responses to, risks of material misstatement in the engagement.
- Whether members of the engagement team have cooperated with the engagement quality reviewer. The firm’s policies or procedures may address the actions the engagement quality reviewer takes in circumstances in which the engagement team has not cooperated with the engagement quality reviewer, for example, informing an appropriate individual in the firm so appropriate action can be taken to resolve the issue.

¹³ Paragraph A49 of SQMS No. 1.

A31. The nature, timing, and extent of the engagement quality reviewer's procedures may need to change based on circumstances encountered in performing the engagement quality review.

Group Audit Considerations

A32. The performance of an engagement quality review for an audit of group financial statements may involve additional considerations for the individual appointed as the engagement quality reviewer for the group audit, depending on the size and complexity of the group. Paragraph 21a requires the firm's policies or procedures to require the engagement quality reviewer to take overall responsibility for the performance of the engagement quality review. In doing so, for larger and more complex group audits, the group engagement quality reviewer may need to discuss significant matters and significant judgments with key members of the engagement team other than the group engagement team (for example, those responsible for performing audit procedures on the financial information of a component). In these circumstances, the engagement quality reviewer may be assisted by individuals in accordance with paragraph 20. The guidance in paragraph A22 may be helpful when the engagement quality reviewer for the group audit is using assistants.

A33. In some cases, an engagement quality reviewer may be appointed for an audit of an entity or business unit that is part of a group, for example, when such an audit is required by law, regulation, or for other reasons. In these circumstances, communication between the engagement quality reviewer for the group audit and the engagement quality reviewer for the audit of that entity or business unit may help the group engagement quality reviewer in fulfilling the responsibilities in accordance with paragraph 21a. For example, this may be the case when the entity or business unit has been identified as a component for purposes of the group audit and significant judgments related to the group audit have been made at the component level.

Information Communicated by the Engagement Team and the Firm (Ref: par. 25a)

A34. Obtaining an understanding of information communicated by the engagement team and the firm in accordance with paragraph 25a may assist the engagement quality reviewer in understanding the significant judgments that may be expected for the engagement. Such an understanding may also provide the engagement quality reviewer with a basis for discussions with the engagement team about the significant matters and significant judgments made in planning, performing, and reporting on the engagement. For example, a deficiency identified by the firm may relate to significant judgments made by other engagement teams for certain accounting estimates for a particular industry. When this is the case, such information may be relevant to the significant judgments made on the engagement with respect to those accounting estimates and, therefore, may provide the engagement quality reviewer with a basis for discussions with the engagement team in accordance with paragraph 25b.

Significant Matters and Significant Judgments (Ref: par. 25b–c)

A35. For audits of financial statements, SAS No. 146¹⁴ requires the engagement partner to review audit documentation relating to significant matters¹⁵ and significant judgments, including

¹⁴ Paragraph 31 of SAS No. 146.

¹⁵ Paragraph .08c of AU-C section 230, *Audit Documentation*. All AU-C sections can be found in AICPA *Professional Standards*.

those relating to difficult or contentious matters identified during the engagement, and the conclusions reached.

A36. For audits of financial statements, SAS No. 14616 provides examples of significant judgments that may be identified by the engagement partner related to the overall audit strategy and audit plan for undertaking the engagement, the execution of the engagement, and the overall conclusions reached by the engagement team.

A37. For engagements other than audits of financial statements, the significant judgments made by the engagement team may depend on the nature and circumstances of the engagement or the entity. For example, in an attestation engagement performed in accordance with Statements on Standards for Attestation Engagements, the engagement team's determination of whether the criteria to be applied in the preparation of the subject matter information are suitable for the engagement may involve or require significant judgment.

A38. In performing the engagement quality review, the engagement quality reviewer may become aware of other areas where significant judgments would have been expected to be made by the engagement team for which further information may be needed about the engagement team's procedures performed or the basis for conclusions reached. In those circumstances, discussions with the engagement quality reviewer may result in the engagement team concluding that additional procedures need to be performed.

A39. The information obtained in accordance with paragraphs 25*a–b*, and the review of selected documentation, assists the engagement quality reviewer in evaluating the engagement team's basis for making the significant judgments. Other considerations that may be relevant to the engagement quality reviewer's evaluation include, for example, the following:

- Remaining alert to changes in the nature and circumstances of the engagement or the entity that may result in changes in the significant judgments made by the engagement team
- Applying an unbiased view in evaluating responses from the engagement team
- Following up on inconsistencies identified in reviewing engagement documentation or inconsistent responses by the engagement team to questions relating to the significant judgments made

A40. The firm's policies or procedures may specify engagement documentation to be reviewed by the engagement quality reviewer. In addition, such policies or procedures may indicate that the engagement quality reviewer exercises professional judgment in selecting additional engagement documentation to be reviewed relating to significant judgments made by the engagement team.

A41. Discussions about significant judgments with the engagement partner and, if applicable, other members of the engagement team, together with the engagement team's documentation, may assist the engagement quality reviewer in evaluating the maintenance of professional skepticism, when applicable to the engagement, by the engagement team in relation to those significant judgments.

A42. For audits of financial statements, SAS No. 14617 provides examples of the impediments to the maintenance of professional skepticism at the engagement level, unconscious auditor biases that may

¹⁶ Paragraph A93 of SAS No. 146.

¹⁷ Paragraphs A33–A35 of SAS No. 146.

impede the maintenance of professional skepticism, and possible actions that the engagement team may take to mitigate impediments to the maintenance of professional skepticism at the engagement level.

A43. For audits of financial statements, the requirements and relevant application material in AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*; ¹⁸ AU-C section 540, *Auditing Accounting Estimates and Related Disclosures*; ¹⁹ and other AU-C sections also provide examples of areas in an audit where the auditor maintains professional skepticism or examples of where appropriate documentation may help provide evidence about how the auditor maintained professional skepticism. Such guidance may also assist the engagement quality reviewer in evaluating the maintenance of professional skepticism by the engagement team.

Whether Relevant Ethical Requirements Relating to Independence Have Been Fulfilled (Ref: par. 25d)

A44. SAS No. 146²⁰ requires the engagement partner, prior to dating the auditor's report, to take responsibility for determining whether relevant ethical requirements, including those related to independence, have been fulfilled.

Whether Consultation Has Taken Place on Difficult or Contentious Matters or Matters Involving Differences of Opinion (Ref: par. 25e)

A45. SQMS No. 1²¹ addresses consultation on difficult or contentious matters and differences of opinion within the engagement team or between the engagement team and the engagement quality reviewer or individuals performing activities within the firm's system of quality management.

Sufficient and Appropriate Involvement of the Engagement Partner on the Engagement (Ref: par. 25f)

A46. SAS No. 146²² requires the engagement partner to determine, prior to dating the auditor's report, that the engagement partner's involvement has been sufficient and appropriate throughout the audit engagement such that the engagement partner has the basis for determining that the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the engagement. SAS No. 146²² also indicates that the documentation of the involvement of the engagement partner may be accomplished in different ways. Discussions with the engagement team, and review of such engagement documentation, may assist the engagement quality reviewer's evaluation of the basis for the engagement partner's determination that the engagement partner's involvement has been sufficient and appropriate.

¹⁸ Paragraph A255 of AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*.

¹⁹ Paragraph .A11 of AU-C section 540, *Auditing Accounting Estimates and Related Disclosures*.

²⁰ Paragraph 21 of SAS No. 146.

²¹ Paragraphs 32d–e and A80–A83 of SQMS No. 1.

²² Paragraph 40a of SAS No. 146.

A47. SAS No. 146 is adapted, as necessary, to engagements performed in accordance with generally accepted auditing standards other than audits of financial statements. Accordingly, the requirement in paragraph 25f is applicable to those engagements.

Engagement Quality Reviewer's Review of Financial Statements and Engagement Reports (Ref: par. 25g)

A48. For audits of financial statements, the engagement quality reviewer's review of the financial statements and auditor's report thereon is consistent with the engagement quality reviewer's understanding of those matters based on the review of selected engagement documentation and discussions with the engagement team. In reviewing the financial statements or financial information, the engagement quality reviewer may also become aware of other areas where significant judgments would have been expected to be made by the engagement team for which further information may be needed about the engagement team's procedures or conclusions. The guidance in this paragraph also applies to reviews of financial statements or financial information and the related engagement report.

A49. For engagements other than audits or reviews of financial statements or financial information, the engagement quality reviewer's review of the engagement report and, when applicable, the subject matter information may include considerations similar to those described in paragraph A46 (for example, whether the presentation or description of matters relating to the significant judgments made by the engagement team are consistent with the engagement quality reviewer's understanding based on the procedures performed in connection with the engagement quality review).

Unresolved Concerns of the Engagement Quality Reviewer (Ref: par. 26)

A50. The firm's policies or procedures may specify the individual or individuals in the firm to be notified if the engagement quality reviewer has unresolved concerns that the significant judgments made by the engagement team, or the conclusions reached thereon, are not appropriate. Such individuals may include the individual assigned the responsibility for the appointment of engagement quality reviewers. With respect to such unresolved concerns, the firm's policies or procedures may also require consultation within or outside the firm (for example, a professional or regulatory body).

Documentation (Ref: par. 28–30)

A51. Paragraphs 58–61 of SQMS No. 1 address the firm's documentation of its system of quality management, which includes the firm's policies and procedures addressing engagements that are required to be subject to engagement quality reviews. This SQMS addresses additional documentation requirements related to such policies and procedures as well as documentation requirements related to the performance of engagement quality reviews undertaken at the engagement level.

A52. The form, content, and extent of the documentation of the engagement quality review may depend on the following factors:

- The nature and complexity of the engagement

- The nature of the entity
- The nature and complexity of the matters subject to the engagement quality review
- The extent of the engagement documentation reviewed

A53. The performance and notification of the completion of the engagement quality review may be documented in a number of ways. For example, the engagement quality reviewer may document the review of engagement documentation electronically in the IT application for the performance of the engagement. Alternatively, the engagement quality reviewer may document the review through means of a memorandum. The engagement quality reviewer's procedures may also be documented in other ways, for example, in the minutes of the engagement team's discussions when the engagement quality reviewer was present.

A54. Paragraph 24*b* requires that the firm's policies or procedures preclude the engagement partner from releasing the engagement report until the completion of the engagement quality review, which includes resolving matters raised by the engagement quality reviewer. Provided that all requirements with respect to the performance of the engagement quality review have been fulfilled, the documentation of the review may be finalized after the release of the engagement report but before the assembly of the final engagement file.

REVIEW OF THE FIVE ETHICAL PRINCIPLES THAT CPA'S WHO ARE MEMBERS OF THE AICPA MUST UPHOLD

1. Responsibilities Principle:

- a. Members are responsible for compliance with all the principles of the Code of Conduct regardless of whether they are working as:
 - i. Employees
 - ii. Contractors (i.e, for your clients)
 - iii. Volunteers

2. Public Interest Principle:

- a. Members owe a duty to the General Public, not just clients
 - i. General Public includes clients, management, investors, government, bankers and anyone else who relies on our services

3. Integrity Principle:

- a. Members must always act with the upmost honesty, subject to client confidentiality

4. Independence and Objectivity Principle:

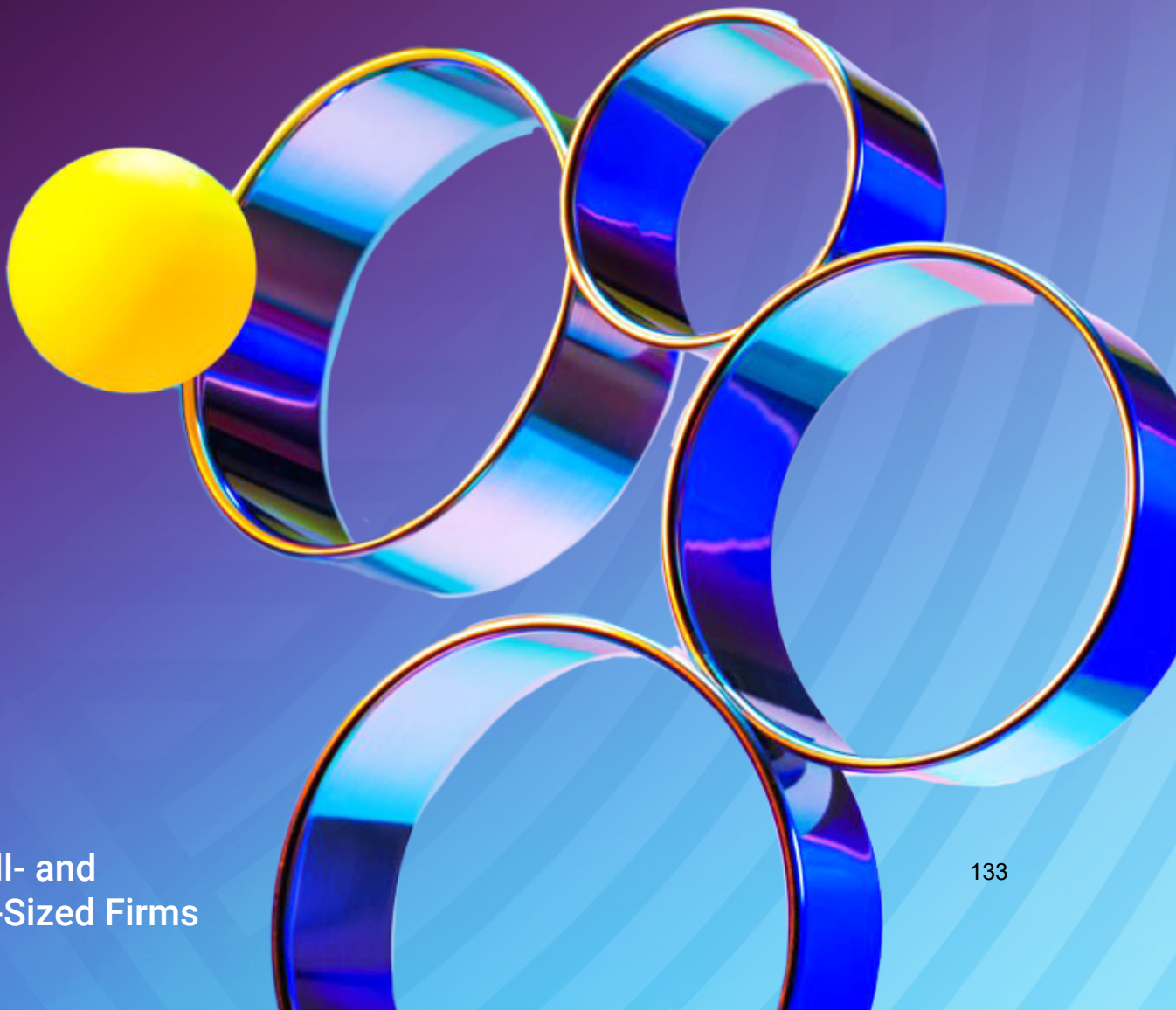
- a. Members must always be independent (generally excludes non-attest services and industry).
- b. Members must also be objective, not swaying from your convictions regardless of their impact

5. Due Care Principle:

- a. Members must perform their work with competence
- b. Members must also approach their work with diligence



Establishing and Maintaining a System of Quality Management for a CPA Firm's Accounting and Auditing Practice



For Small- and
Medium-Sized Firms

Quality Management Implementation Task Force

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Notice to readers

This AICPA Audit and Accounting Practice Aid replaces *Establishing and Maintaining a System of Quality Control for a CPA Firm's Accounting and Auditing Practice*, which was issued in 2015. Although this practice aid has been reviewed by the AICPA Audit and Attest Standards staff, it has not been approved, disapproved, or otherwise acted upon by any senior technical committee of the AICPA and has no official or authoritative status.

This practice aid does not address the quality control requirements of the Sarbanes-Oxley Act of 2002 (SOX), nor does it address the quality control requirements of PCAOB standards that must be followed by auditors of issuers. Auditors of issuers should follow these other standards and make changes to their firm's quality control systems as necessary.

Additional information about the PCAOB and SOX can be obtained at the PCAOB website at www.pcaobus.org.

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How to Use this Practice Aid

This AICPA Audit and Accounting Practice Aid, *Establishing and Maintaining a System of Quality Management for a CPA Firm's Accounting and Auditing Practice*, is intended to help practitioners design, implement, and operate a system of quality management for their firm's accounting and auditing practice, as required by Statement on Quality Management Standards (SQMS) No. 1, *A Firm's System of Quality Management*, issued by the AICPA.

SQMS No. 1 requires the firm to apply a risk-based approach in designing, implementing, and operating the components of the system of quality management. In applying a risk-based approach, the firm is required to take into account the nature and circumstances of both the firm and the engagements performed by the firm. This practice aid explains how to apply a risk-based approach and includes a library of potential risks and suggested responses.

Use this practice aid, and the Example Risk Assessment template, to help you apply the risk-based approach, identify the quality risks to your practice, and implement policies and procedures as necessary for the facts and circumstances of your practice.

Many of the policies and procedures may need to be modified to be applicable to your firm. Some may not be applicable at all. You may need to add policies and procedures that are already part of your system. Some of the policies and procedures are required by SQMS No. 1; these are noted in chapters 3 and 4.

Be aware that if you do not customize the risks and responses to the nature of your practice

- you won't be in compliance with the standards.
- you won't be doing what is most efficient and effective for your practice.

If all you do is

- copy the quality risks from this practice aid, it is likely that your quality risks will be incomplete, or that you will include quality risks that do not apply to your firm. Do not copy the quality risks from this practice aid without thoughtful consideration of any modifications needed for your firm's nature and circumstances.
- copy and paste the policies and procedures in this practice aid, you will be committing to responses that may not apply to your firm. And, because you included them in your documentation of your system of quality management, your peer reviewer will expect you to apply those policies and procedures.

In addition, a firm's risk assessment should be iterative and updated when changes in the nature and circumstances of the firm or its engagements occur. An incomplete or out-of-date risk assessment can have a significant effect on the system of quality management.

This practice aid is intended for firms with two or more personnel. If your firm has only one assurance partner, or only one partner with expertise in a specialized area, you may find the AICPA Audit and Accounting Practice Aid *Establishing and Maintaining a System of Quality Management for a CPA Firm's Accounting and Auditing Practice* for sole practitioners, also helpful.

Chapter 1 – Overview of Statements on Quality Management Standards

Statement on Quality Management Standards (SQMS) No. 1, *A Firm's System of Quality Management*, (QM section 10),¹ was issued by the Auditing Standards Board of the AICPA in June 2022 and is effective for a firm's accounting and auditing practice as of December 15, 2025. This standard supersedes Statement on Quality Control Standards No. 8, *A Firm's System of Quality Control*.²

The biggest change reflected in the new QM standard is the introduction of a risk-based approach in designing, implementing, and operating a system of quality management (SOQM), which helps firms identify and address risks specific to their practice and creates a more scalable approach to quality for all firms. The risk-based approach comprises (a) establishing quality objectives (the desired outcomes relating to the components of the SOQM to be achieved by the firm); (b) identifying and assessing quality risks (a risk that has a reasonable possibility of occurring and, individually or in combination with other risks, adversely affecting the achievement of one or more quality objectives); and (c) designing and implementing responses (policies or procedures designed and implemented by the firm to address one or more quality risks).

The standard's approach emphasizes the responsibility of firm leadership for proactively managing quality and provides flexibility to deal with differences in the size of firms and the nature of the services they provide. The essence of this approach is to focus firms' attention on risks that may have an impact on engagement quality. The approach requires a firm to customize the design, implementation, and operation of its SOQM based on the nature and circumstances of the firm and the engagements it performs. The standard also has an increased emphasis on a continual flow of remediation and improvement.

An SOQM addresses the following eight components, which are highly integrated and do not act in a linear manner:

1. The firm's risk assessment process
2. Governance and leadership
3. Relevant ethical requirements
4. Acceptance and continuance of client relationships and specific engagements
5. Engagement performance
6. Resources
7. Information and communication
8. The monitoring and remediation process

The objective of the firm is to design, implement, and operate an SOQM for its accounting and auditing practice that provides the firm with reasonable assurance that

- the firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements and conduct engagements in accordance with such standards and requirements, and
- engagement reports issued by the firm are appropriate in the circumstances.

In this context, reasonable assurance is not intended to be obtained through independent assurance that the system is effective (for example, by having a peer review every year); instead, it is obtained through the operation of the system as a whole.

¹ The QM sections can be found in AICPA *Professional Standards*.

² The Statements on Quality Control Standards are codified in the QC sections in AICPA *Professional Standards*.

The Firm's Risk Assessment Process

The purpose of the risk assessment process element of an SOQM is to establish quality objectives, identify and assess quality risks, and design and implement responses to address the quality risks. The risk assessment process section of SQMS No. 1 focuses firms' attention on risks that may have an impact on engagement quality.

The risk assessment is a three-step process:

1. **Establish quality objectives.** The standard requires the firm to establish specific quality objectives for each component except risk assessment and monitoring and remediation. The firm is required to establish additional quality objectives when necessary to achieve the objective of the SOQM. However, the firm may not find it necessary to establish additional quality objectives.
2. **Identify and assess risks to the achievement of the quality objectives** (referred to in the standard as quality risks). Identifying and assessing quality risks involves
 - a. understanding the factors (that is, the conditions, events, circumstances, actions, or inactions) that may adversely affect the achievement of the quality objectives and

- b. taking into account how and the degree to which the factors may adversely affect the achievement of the quality objectives. (The assessment of identified quality risks does not require formal ratings or scores.)

A risk arises from how, and the degree to which, a condition, event, circumstance, action, or inaction may adversely affect the achievement of a quality objective. Not all risks meet the definition of a quality risk.

3. **Design and implement responses to address the quality risks.** The nature, timing, and extent of the firm's responses to address the quality risks are based on, and responsive to, the reasons for the assessments given to the quality risks. Certain responses are specified in the standard; however, the specific responses required by the standard will not be sufficient for the firm to address all its quality risks.

Firms are also required to identify information indicating the need for additions or modifications to quality objectives, quality risks, or responses.

Governance and Leadership

The purpose of the governance and leadership element of an SOQM is to promote an internal culture based on the recognition that quality is essential in performing engagements. The governance and leadership section of SQMS No. 1 addresses the expected behavior of firm leadership in setting the tone at the top, the appropriate qualifications of leadership, and holding leadership accountable through performance evaluations. The standard also addresses the importance of quality in the firm's strategic decisions and actions — including financial and operational priorities — as well as firm leadership's ability to influence decisions about the firm's resources.

The firm is required to assign ultimate responsibility and accountability for the SOQM to the firm's CEO, managing partner (or equivalent), or if appropriate, managing board

of partners (or equivalent). In addition, the firm is required to assign the following to designated individuals:

- Operational responsibility for the SOQM
- Operational responsibility for specific aspects of the SOQM, including compliance with independence requirements and the monitoring and remediation process

SQMS No. 1 emphasizes the firm's commitment to quality through a culture that reflects the firm's role in serving the public interest through consistent quality engagements. Leadership demonstrating a commitment to quality through its actions and behaviors reinforces the responsibility that all personnel hold for quality relating to the performance of engagements and activities within the SOQM.

Relevant Ethical Requirements

The purpose of the relevant ethical requirements element of an SOQM is to provide the firm with reasonable assurance that the firm and its personnel comply with relevant ethical requirements when performing professional responsibilities. The relevant ethical requirements component of SQMS No. 1 addresses responsibilities regarding ethical requirements for the firm and its personnel as well as others in the firm's network. The following quality objectives should be established relating to the firm and its personnel:

- Understand the relevant ethical requirements to which the firm and the firm's engagements are subject.
- Fulfill their responsibilities in relation to the relevant ethical requirements to which the firm and the firm's engagements are subject.

The firm should also ascertain that others (including the network, network firms, individuals in the network or network firms, or service providers) who are subject to the relevant ethical requirements to which the firm and the firm's engagements are subject

- understand the relevant ethical requirements that apply to them, and
- fulfill their responsibilities in relation to the relevant ethical requirements that apply to them

Examples of relationships between the relevant ethical requirements component and other components include the following:

- The information and communication component may address the communication of various matters related to relevant ethical requirements, including
 - the firm communicating the independence requirements to all personnel and others subject to independence requirements.

- personnel and engagement teams communicating relevant information to the firm without fear of reprisals, such as situations that may create threats to independence or breaches of relevant ethical requirements.
- As part of the resources component, the firm may
 - assign individuals to manage and monitor compliance with relevant ethical requirements or to provide consultation on matters related to relevant ethical requirements.
 - use IT applications to monitor compliance with relevant ethical requirements, including recording and maintaining information about independence.

The relevant ethical requirements that apply to others depend on the provisions of the relevant ethical requirements and how the firm uses others in its SOQM or in performing engagements. Examples follow:

- Relevant ethical requirements may include requirements for independence that apply to network firms or employees of network firms.
- The principle of confidentiality may apply to the firm's network, other network firms, or service providers when they have access to client information obtained by the firm.

Acceptance and Continuance of Client Relationships and Specific Engagements

The purpose of the acceptance and continuance of client relationships and specific engagements component of an SOQM is to provide reasonable assurance that the firm makes appropriate judgments about whether to accept or continue a client relationship and whether to perform a specific engagement. A firm's acceptance and continuance policies represent a key element in quality management, while also mitigating litigation and business risk. This component of SQMS No. 1 also addresses quality objectives for firms around client acceptance and continuance decisions. These objectives include judgments by the firm to accept or continue a client relationship or specific engagement based on

- information obtained about the nature and circumstances of the engagement.

- information obtained about the integrity and ethical values of the client, including the identity and business reputation of the client's principal owners, key management, and those charged with its governance.
- the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements

SQMS No. 1 also emphasizes that the financial and operational priorities of the firm should not lead to inappropriate judgments about whether to accept or continue a client relationship or specific engagement.

Engagement Performance

The purpose of the engagement performance element of an SOQM is to provide the firm with reasonable assurance that engagements are consistently performed in accordance with applicable professional standards and regulatory and legal requirements and that the firm issues reports that are appropriate in the circumstances. The engagement performance section of SQMS No. 1 provides quality objectives that firms should establish to obtain reasonable assurance that high-quality performance is being attained in the firm's engagements. Establishing and maintaining quality objectives such as the following help the firm in obtaining reasonable assurance relating to the engagement performance element of an SOQM:

- 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.
- The nature, timing, and extent of direction and supervision of engagement teams and review of the work performed is appropriate based on the nature and

circumstances of the engagements and the resources assigned or made available to the engagement teams; the work performed by less experienced engagement team members is directed, supervised, and reviewed by suitably experienced engagement team members.

- Engagement teams exercise appropriate professional judgment and, when applicable to the type of engagement, maintain professional skepticism.
- Consultation on difficult or contentious matters is undertaken, and the conclusions agreed to are implemented.
- Differences of opinion within the engagement team, or between the engagement team and the engagement quality reviewer or individuals performing activities within the firm's SOQM, are brought to the attention of the firm and resolved.
- Engagement documentation is assembled on a timely basis after the date of the engagement report and is appropriately maintained and retained to meet the needs of the firm and comply with law, regulation, relevant ethical requirements, and professional standards.

Resources

The purpose of the resources element of an SOQM is to provide the firm with reasonable assurance that it is appropriately obtaining, developing, using, maintaining, allocating, and assigning resources in a timely manner to enable the design, implementation, and operation of the SOQM. SQMS No. 1 addresses all resources that the firm needs both to operate the system and to perform engagements. These resources cover the following:

- **Technological resources.** For example, audit tools or IT applications used by the firm for independence monitoring.
- **Intellectual resources.** For example, the firm's methodology, guidance, templates, or tools.
- **Human resources.** This may include people outside the firm used in engagements, including component auditors or engagement quality reviewers who are external to the firm.

The standard focuses on what resources are needed, how they are used and maintained, and whether they are appropriate. The principles-based nature of the requirements relating to resources takes into account the variety of resources used and their source. The resources section of SQMS No. 1 also covers the use of resources from service providers and how to determine that those resources are appropriate for the intended use by the firm. A resource from a service provider could be a methodology, an IT application, or people used in an engagement. Services that come from a firm's network, if the firm belongs to a network, are not considered as coming from a service provider.

Information and Communication

The purpose of the information and communication element of an SOQM is to address the importance of communicating information obtained, generated, or used both within the firm and to external parties on a timely basis to enable the design, implementation, and operation of the SOQM.

This component of SQMS No. 1 underscores the importance of a continuous flow of information and communication by linking the exchange of information to the firm's culture so that it is driven from top leadership throughout the firm. The standard requires that the firm establish an information system with processes to identify, capture, process, and maintain information, acknowledging that less complex firms with fewer

personnel and direct involvement of leadership may accomplish the objective with less rigorous or detailed policies and procedures.

This component of SQMS No. 1 also encourages firms to be transparent to external parties about their SOQM in a relevant, innovative, and proactive manner. This component requires that firms establish policies and procedures that address when communications with external parties are appropriate. To promote continual innovation in this area, the standard provides flexibility regarding the specific information communicated, the form of that communication, and the nature, timing, and extent of communication.

Monitoring and Remediation

The purpose of the monitoring and remediation process element of an SOQM is to provide the firm with relevant, reliable, and timely information about the design, implementation, and operation of the SOQM so the firm may take appropriate action to remediate identified deficiencies on a timely basis. SQMS No. 1 focuses on monitoring activities that address the entire SOQM. The standard emphasizes performing tailored monitoring activities sufficient to provide a basis for the firm to evaluate the SOQM.

The requirements also emphasize factors that firms should consider in designing monitoring activities, rather than prescribing such activities. The nature, timing, and extent of monitoring activities will be driven by many firm-specific factors including the following:

- How the underlying system is designed
- The nature and circumstances of the firm and engagements it performs
- The extent of changes to the system
- The results of previous monitoring activities or external inspections

This component includes a requirement to inspect completed engagements and for engagement partners to be inspected on a cyclical basis. The firm determines its inspection criteria, including how often to select completed engagements, which completed engagements to select, which engagement partners to select, and how frequently to select an engagement partner. In doing so, the firm takes into account factors such as other types of monitoring the firm does, areas of risk, and how the system is designed.

The standard includes requirements for evaluating findings, identifying deficiencies, and evaluating the severity and persuasiveness of the deficiencies. These include a requirement to investigate the root cause of identified deficiencies. The requirement is intended to be flexible to encourage firms to scale the nature, timing, and extent of the procedures to investigate the root cause of the deficiencies so that they are appropriate and tailored to the circumstances. The evaluation of the severity and pervasiveness of deficiencies is also used by leadership in evaluating the system and concluding whether it achieved its objectives.

Chapter 2 – Overview of Risk Assessment Requirements

The starting point for the system of quality management (SOQM) is the design and implementation of a risk assessment process to

- establish quality objectives;
- identify and assess quality risks; and
- design and implement responses to address the quality risks.

This chapter describes the requirements for the firm to perform a risk assessment (see paragraphs .24–.28 and .A40–.A55 of Statement on Quality Management Standards [SQMS] No. 1, *A Firm's System of Quality Control* [QM section 10]¹) and includes practical guidance for performing the risk assessment.

Establish quality objectives

The firm should establish for each of the following components quality objectives required by the standard:

- Governance and leadership
- Relevant ethical requirements
- Acceptance and continuance of client relationships and specific engagements
- Engagement performance
- Resources
- Information and communication

These specific quality objectives are discussed later in this practice aid.

The firm might find it helpful to break the quality objectives into sub-objectives, although that is not required.

Firms should establish policies or procedures to identify information indicating that additional quality objectives are needed due to the firm's circumstances. However, the quality objectives are sufficiently comprehensive that it is unlikely the firm would find it necessary to establish additional quality objectives.

¹ All QM sections can be found in AICPA *Professional Standards*.



Identify Quality Risks

There may be many risks that could adversely affect the achievement of the quality objectives. However, it is not reasonable or practicable for the firm to identify and assess every possible risk and to design and implement responses for every risk. Accordingly, the standard requires the firm to identify *quality* risks.

A risk qualifies as a quality risk when it meets both of the following criteria:

1 The risk has a reasonable possibility of occurring.

2 The risk has a reasonable possibility of, individually or in combination with other risks, adversely affecting the achievement of one or more quality objectives.

The firm exercises professional judgment in determining whether a risk meets the threshold set out in the definition of quality risks.



NOTE: The threshold for identifying quality risks is at the level of the quality objectives. If a firm has sub-objectives, there may be circumstances in which a risk has a reasonable possibility of adversely **affecting the achievement of the sub-objective**, but does not have a reasonable possibility of adversely **affecting the achievement of a quality objective**; in this case, the risk would not be considered a quality risk.

How the Firm Identifies and Assesses Quality Risks

The process the firm is required to follow in identifying and assessing quality risks is as follows:

Step 1: Identify the risks.

Understand the various conditions, events, circumstances, actions, or inactions related to the firm and its engagements that could adversely affect the achievement of the quality objectives. The risks include anything that could prevent the firm from achieving the quality objectives. For example, not taking any positive action to achieve the quality objective would prevent the firm from achieving the quality objective.

Step 2: Assess the risks.

In assessing the risks, the firm takes into account the following:

- How and the degree to which the conditions, events, circumstances, actions, or inactions may affect the achievement of the quality objectives.
- The likelihood of the risk occurring. This is necessary to determine whether the risk meets the threshold of a quality risk.

Another way of expressing this is in terms of likelihood and magnitude. How likely is the risk to occur? How bad would it be if it did? The identification and assessment of the quality risks may be undertaken simultaneously. A firm may choose to identify and assess quality risks as two discrete steps, but this is not required.



The Conditions, Events, Circumstances, Actions, or Inactions that Could Adversely Affect the Achievement of the Quality Objectives

QM section 10 includes specific conditions, events, circumstances, actions, or inactions related to the nature and circumstances of the firm and its engagements that the firm is required to

- understand and
- take into account, thinking about how they may adversely affect the achievement of the quality objectives.

The next step is for the firm to identify any quality risks.

The following table lists these specific conditions, events, circumstances, actions, or inactions.

The Conditions, Events, Circumstances, Actions, or Inactions that the Firm Is Required to Understand	
The complexity and operating characteristics of the firm	Matters such as the size of the firm; the geographical dispersion of the firm; how the firm is structured; the extent to which the firm concentrates or centralizes its processes or activities (for example, use of service delivery centers); and the characteristics and availability of the firm's resources.
The strategic and operational decisions and actions, business processes, and business model of the firm	Matters such as decisions about financial and operational priorities, including the firm's strategic goals; how financial resources are managed; growth of the firm's market share; industry specialization; and new industries or service offerings.
The characteristics and management style of leadership	Matters such as the composition and tenure of firm leadership; how authority is distributed among leadership; how leadership motivates and encourages personnel; and the culture created by firm leadership.
The resources of the firm, including the resources provided by service providers	<p>Matters such as the general background of the firm's personnel and overall staff profile and structure; the use of technology and how that technology is obtained, developed, and maintained; and the availability and allocation of financial resources.</p> <p>With respect to service providers, matters such as the nature of the resources provided by service providers; how and the extent to which they will be used by the firm; and the general characteristics of the service providers used by the firm.</p>
Law, regulation, professional standards, and the environment in which the firm operates	Matters such as regulations directly relevant to the firm and professional standards, other standards, or regulations affecting engagements performed by the firm (for example, general purpose frameworks for financial reporting commonly used in the jurisdiction).

The Conditions, Events, Circumstances, Actions, or Inactions that the Firm Is Required to Understand

The nature and extent of the network requirements and network services	Matters such as the nature of the network; how the network is organized; and the quality of network requirements or network services provided.
The types of engagements performed by the firm and the reports to be issued	<p>Matters such as which engagements the firm performs, including</p> <ul style="list-style-type: none"> • audits or reviews of financial statements, and whether the firm performs engagements to report on summary financial statements or reviews of interim financial statements • other assurance or related services engagements and the types of subject matter for which such engagements are undertaken (for example, sustainability reports, controls at service organizations) <p>The firm may also understand and consider how the reports the firm issues may be used.</p>
The types of entities for which engagements are undertaken	Matters such as the industries in which the firm's clients operate and the nature of their business; the size and complexity of the firm's clients; the nature of the firm's clients' shareholding (for example, owner-managed); and the size or nature of the firm's clients' stakeholders.

It is essential to note that this list of conditions, events, circumstances, actions, or inactions is not exhaustive. There may be other conditions, events, circumstances, actions, or inactions that may adversely affect the achievement of a quality objective, which the firm would need to understand and further consider to determine whether a quality risk exists.

Furthermore, not all the conditions, events, circumstances, actions, or inactions are relevant to every quality objective.

The following table includes examples of conditions, events, circumstances, actions, or inactions that may adversely affect the achievement of the quality objectives, and the quality risks that may arise.

Condition, event, circumstance, action, or inaction that may adversely affect the achievement of a quality objective	Quality risks that may arise
The complexity and operating characteristics of the firm. The firm is a large firm with multiple offices. Each office has a leader in charge of engagement quality and administrative and operational matters.	In the context of governance and leadership, quality risks relating to how a consistent culture is maintained throughout the firm because of the dispersion of the firm and the leadership responsibilities
The strategic and operational decisions and actions, business processes, and business model of the firm. The firm has a strategic goal to grow its tax practice and offer more extensive tax planning advice and support.	In the context of relevant ethical requirements, a quality risk that the firm breaches independence requirements regarding nonaudit services
The characteristics and management style of leadership. Given that the firm is small, leadership is concentrated to a single individual who has daily interactions with personnel.	In the context of engagement performance, a quality risk that personnel do not bring differences of opinion that involve leadership to the attention of the firm
The resources of the firm, including the resources provided by service providers. The firm has a service delivery center located in another jurisdiction that performs certain aspects of the firm's audit engagements.	In the context of engagement performance, a quality risk that engagement personnel are not appropriately directed and supervised and that their work is not appropriately reviewed
Law, regulation, professional standards, and the environment in which the firm operates. Due to the global pandemic, engagement teams work remotely.	In the context of information and communication, a quality risk that information is not communicated appropriately to engagement teams working remotely, such that engagement teams are unable to understand and carry out their responsibilities in performing the engagement
Law, regulation, professional standards, and the environment in which the firm operates. New regulations are introduced mandating audit firm rotation every 10 years, resulting in the firm losing many of its engagements in quick succession and many personnel becoming underutilized.	In the context of acceptance and continuance, a quality risk that the firm inappropriately accepts a client relationship or specific engagement, given that the firm has excess staff capacity

Condition, event, circumstance, action, or inaction that may adversely affect the achievement of a quality objective	Quality risks that may arise
<p>The nature and extent of the network requirements and network services. The network requires all firms in the network to use the network-developed IT software for independence. Personnel are required to record their financial interests in the software, and all services to clients are logged in the software. The software tracks information to automatically alert the firm if there is an independence breach.</p>	<p>In the context of relevant ethical requirements, a quality risk that the network does not appropriately take into account requirements regarding independence in developing the software and that the firm is not alerted when there is an independence breach</p>
<p>The types of engagements performed by the firm and the reports to be issued. The firm performs assurance engagements for greenhouse gas statements.</p>	<p>In the context of resources, a quality risk that the firm does not have appropriate intellectual resources to support these engagements and that engagement teams use intellectual resources that do not take into account laws and regulations related to emissions</p>
<p>The types of entities for which engagements are undertaken. The firm performs compilations of financial statements for entities that operate in an industry in which recent revisions to the accounting standards have given rise to complex financial statement disclosures. Typically, the compilation engagements performed by the firm are not complex.</p>	<p>In the context of engagement performance, a quality risk that the engagement teams performing the compilations do not undertake appropriate consultation, given that they have not previously needed to consult on complex financial statement disclosures</p>
<p>The types of entities for which engagements are undertaken. The firm performs audits of entities involved in an industry with specialized accounting.</p>	<p>In the context of resources, a quality risk that personnel lack the appropriate knowledge or experience of relevant accounting standards applicable to that industry</p>



The firm is not required to document the consideration of every condition, event, circumstance, action, or inaction that may give rise to a quality risk. The documentation of the quality risks may include the reasons for the assessment given to the quality risks (that is, the considered occurrence and effect on the achievement of the quality objectives).

In some circumstances, it may be appropriate for the firm to document its process and analysis for establishing quality objectives, identifying and assessing quality risks, and designing responses to such risks, to provide a history of the basis for decisions made by the firm about its SOQM.

Further considerations on documentation are included in the documentation section.

Practical Tips on Designing and Performing the Risk Assessment Process

Your firm may find the following tips helpful in organizing the process.

☐ **Determine who within the firm will take ownership and lead the implementation process.**

- Note that SQMS No. 1 requires that the firm assign ultimate responsibility and authority for the SOQM to the firm's managing partner, and assign, to appropriate individuals within the firm, (i) operational responsibility for the SOQM, and (ii) operational responsibility for specific aspects of the SOQM. Note that, depending on firm size, these may all be the same person.

☐ **Determine the resources — human, intellectual, and technical — needed for successful implementation.**

Tip: your staff may view working on this project as an opportunity.

☐ **Develop a timeline for performing the risk assessment and designing and implementing responses, that ends with full compliance with SQMS No. 1 by December 15, 2025.**

☐ **Talk with your peer reviewer about your implementation plan. Note that your peer reviewer, to maintain independence, cannot be part of your SOQM — just like you can't be part of your client's system of internal control over financial reporting — but can advise you.**

☐ **Plan a risk assessment brainstorming session (or more than one) to do the following:**

- Determine the order in which the components will be assessed. It could be all at once, one at a time, or in groupings (such as acceptance/resources, followed by performance/information, followed by governance and ethical components).

- Determine the participants for the components. Depending on the component and the size of your firm, you might find it necessary to involve the firm's other departments (such as IT, HR, and risk advisory).

- Develop a template that includes the quality objectives for that component, along with space to document brainstorming risks identified, risk significance, and planned responses. Or use whiteboards or sticky notes, and take pictures of them at the end of the session.

☐ **Hold a risk assessment session and during the meeting:**

- Set a time limit on brainstorming and stick to it.
 - Do not get stuck on one area.
 - Remember the goal at this stage is to identify and assess the risks, not to develop responses.
 - Keep front of mind that risk assessment is iterative, and the firm may find more ideas as implementation develops.
- Brainstorm risk identification.
 - Think about what in your practice could go wrong from a quality perspective.
 - Think about what you have to do (or are currently doing) in your practice to make sure things go right.
 - Consider any information the firm may have related to current quality risks (for example, information provided to insurance carriers).
- Go over the identified risks and assess them for likelihood and magnitude. Decide which risks are quality risks. It may take a few iterations to determine the appropriate level for quality risks, to avoid being too granular or too high level. (This step may call for a separate session.)

- Do just enough to know that the risk will warrant a response and move on.
 - You do not have to document every risk that is considered.
 - You may wish to track borderline risks that don't quite rise to quality risks for reassessment in the future.
 - Tip: moving into a new industry or area of practice is always a quality risk.
- Don't worry about perfection in documentation — just get it in your file.
- Don't worry about matching risks to objectives.
- Don't spend time trying to perfect the likelihood, magnitude, or reasons for the risk.
- The number of risks a firm should identify is a matter of professional judgment and depends on the nature and circumstances of the firm. But consider:
 - If you have many risks that are covered by the same responses (for example, policies and procedures), that's a sign you're too granular, and you may wish to group the risks.
 - If you have haven't identified risks associated with all responses (for example, policies and procedures), that may be a sign that you haven't identified enough quality risks.

☐ **Perform a gap analysis. Based on the quality risks identified, map current controls — or “responses to quality risks,” as SQMS No. 1 calls them.**

- Identify quality risks without appropriate responses as well as any current responses that do not map to a quality risk.
- Take note of the specified responses within SQMS No. 1 that the firm is required to design and implement.
 - Design and implement new responses for risks that are not addressed. Consider discontinuing current responses that do not map to a quality risk.
 - Document the risk assessment process. This documentation does not need to be very detailed; it should describe the process (that is, what you did to identify and assess quality risks) without including every risk identified.

Chapter 3 — Library of Quality Objectives, Potential Risks, and Potential Responses

Instructions for Using this Library

This chapter addresses the components that are subject to the risk assessment process, which are all components, except for the risk assessment process, which is addressed in chapter 2, “Overview of Risk Assessment Requirements”, and monitoring, which is addressed in chapter 4, “Monitoring and Remediation Process”.

This chapter is organized by component. For each component in this chapter, there are four tables:

- **Table 1:** Required Quality Objectives
- **Table 2:** Required Quality Objectives and Potential Quality Risks
- **Table 3:** Required and Suggested Quality Responses
- **Table 4:** Example of Evaluated Quality Risks and Linked Responses

Table 1: Required Quality Objectives

This table contains the quality objectives (QO) that the firm is required to establish for the component.

Table 2: Required Quality Objectives and Potential Quality Risks

This table contains the quality objectives that the firm is required to establish for the component. Following each objective is a repository of potential quality risks (QRI). (Note: You may believe that a risk fits better under a different quality objective. If so, feel free to move it; what is important is that all quality risks are identified.)

Quality Risks

A risk arises from how, and the degree to which, a condition, event, circumstance, action, or inaction may adversely affect the achievement of a quality objective. A quality risk is a risk that has a reasonable possibility of occurring, and individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives. Not all risks meet the definition of a *quality risk*.

The quality risks library is intended to be a repository of potential risks; it is not all-inclusive, nor are all quality risks in the library necessarily applicable to your firm. In identifying and assessing quality risks, focus on understanding conditions, events, circumstances, actions, or inactions that relate to the nature and circumstances of your firm and its engagements. The scalability of the Statements on Quality Management Standards (SQMSs) lies in your ability to identify the risks and responses that are appropriate for the nature and circumstances of your practice. The quality risks in the library should be tailored to suit your firm. You may decide to evaluate risks at a very high level, for example, stating risks as the reverse of the quality objectives, in which case, all the risks would be quality risks. You may decide to evaluate risks at a somewhat more granular level or at a very granular level, or a combination of these approaches.

To determine if a risk is a quality risk for your firm

- determine the likelihood of the risk occurring, and
- determine the impact that the risk could have, whether individually or in combination with other risks, to the firm achieving one or more quality objectives.



Note: Formal ratings or scores are not required by QM section 10, *A Firm's System of Quality Management*. However, this practice aid provides drop-down menus to assess the risks as low, medium, or high. Risks that have a low likelihood of occurring and a low impact are not considered quality risks for purposes of this practice aid.

WARNING: The risk is evaluated before the effect of controls (that is, quality responses, which are policies, and procedures). You may think that a quality risk doesn't exist because your firm already has effective controls to mitigate it. Evaluate risks as if you were starting to build a system of quality management (SOQM) from the ground up. (On the Responses tab, you can consider your existing policies and procedures).

Table 3: Required and Suggested Quality Responses

Responses (QRe) are policies or procedures designed and implemented by firms to address one or more quality risks. Policies are identified with bold text.

QM section 10 has a limited number of required specified responses, which are identified in this practice aid. The firm is expected to design and implement its own additional responses that are responsive to its identified quality risks. In addition to the required specific responses, this table contains potential additional responses that should be linked to your firm's risks and tailored to suit the nature and circumstances of your firm.

Although responses are categorized by component, responses may be related in several ways. A response may address multiple quality risks across various components. For example, the responses designed and implemented by the firm to address complaints and allegations may address quality risks related to the quality objectives in (i) resources (for example, personnel's commitment to quality), (ii) relevant ethical requirements, and (iii) governance and leadership.

A response may support another response in another component. This is particularly the case for responses related to resources and information and communication because these elements are often needed to support the operation of other responses. See the exhibit, "Relevant Responses From Other Components," at the end of this chapter.

Table 4: Example of Evaluated Quality Risks and Linked Responses

This table provides examples of evaluated quality risks and linked responses to the quality risk. Please note that this is for illustrative purposes only. Your firm may identify other risks, may evaluate the likelihood and impact of those risks differently, and may choose other responses. The examples are not complete; if all you do is copy and paste the examples, your SOQM will not provide reasonable assurance of achieving its objectives.

The examples included illustrate the documentation of establishing quality objectives, evaluating quality risks, and designing the firm's responses to those quality risks. This is not a complete picture of an established SOQM. The implementation, evaluation, and monitoring of the system will need to be documented and established, as well.

Note: QM section 10 requires the firm to assign ultimate responsibility and accountability for the firm's SOQM to the firm's CEO, the firm's managing partner (or equivalent), or, if appropriate, the firm's managing board of partners (or equivalent). For purposes of this practice aid, this position is referred to as the *firm's managing partner*.

Governance and Leadership

Table 1: Required Quality Objectives— Governance and Leadership

QO #	Ref:	Quality Objectives (QO)
GOV QO-1	QM sec. 10, par. .29a	<p>The firm demonstrates a commitment to quality through a culture that exists throughout the firm, which recognizes and reinforces the following:</p> <ul style="list-style-type: none"> • The firm's role in serving the public interest by consistently performing quality engagements • 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 • The importance of quality in the firm's strategic decisions and actions, including the firm's financial and operational priorities
GOV QO-2	QM sec. 10, par. .29b	Leadership is responsible and accountable for quality.
GOV QO-3	QM sec. 10, par. .29c	Leadership demonstrates a commitment to quality through its actions and behaviors.
GOV QO-4	QM sec. 10, par. .29d	The organizational structure and assignment of roles, responsibilities, and authority is appropriate to enable the design, implementation, and operation of the firm's SOQM.
GOV QO-5	QM sec. 10, par. .29e	Resource needs, including financial resources, are planned for, and resources are obtained, allocated, or assigned in a manner that is consistent with the firm's commitment to quality.

Table 2: Required Quality Objectives and Potential Quality Risks — Governance and Leadership

QO#	QRI #	Quality Risk (QR)	Likelihood	Impact	Quality Risk
GOV QO-1	QM sec. 10, par. .29a	<p>The firm demonstrates a commitment to quality through a culture that exists throughout the firm, which recognizes and reinforces the following:</p> <ul style="list-style-type: none"> i. The firm’s role in serving the public interest by consistently performing quality engagements ii. The importance of professional ethics, values, and attitudes iii. The responsibility of all personnel for quality relating to the performance of engagements or activities within the system of quality management and their expected behavior iv. The importance of quality in the firm’s strategic decisions and actions, including the firm’s financial and operational priorities 			

Public Interest Role and Culture of Quality

GOV QO-1	GOV QRI-1	The firm does not demonstrate a commitment to quality through the culture that exists throughout the firm.	Choose an item.	Choose an item.	Choose an item.
GOV QO-1	GOV QRI-2	The firm does not acknowledge its role in serving the public interest and does not strive to perform quality engagements.	Choose an item.	Choose an item.	Choose an item.
GOV QO-1	GOV QRI-3	The firm does not recognize or reinforce the importance of professional ethics, values, and attitudes.	Choose an item.	Choose an item.	Choose an item.
GOV QO-1	GOV QRI-4	The firm does not recognize or reinforce the responsibility of all personnel for quality relating to the performance of engagements or activities within the SOQM and their expected behavior.	Choose an item.	Choose an item.	Choose an item.
GOV QO-1	GOV QRI-5	The firm does not recognize or reinforce the importance of quality in the firm’s strategic decisions and actions, including the firm’s financial and operational priorities.	Choose an item.	Choose an item.	Choose an item.
GOV QO-1	GOV QRI-6	The firm’s culture and communication does not include a focus on the public interest or the importance of professional ethics, values, and attitudes in the performance of accounting and auditing services.	Choose an item.	Choose an item.	Choose an item.
GOV QO-1	GOV QRI-7	The firm fails to establish or communicate consequences for unsatisfactory quality performance to personnel.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk (QR)	Likelihood	Impact	Quality Risk
GOV QO-1	QM sec. 10, par. .29a	<p>The firm demonstrates a commitment to quality through a culture that exists throughout the firm, which recognizes and reinforces the following:</p> <ul style="list-style-type: none"> i. The firm's role in serving the public interest by consistently performing quality engagements ii. The importance of professional ethics, values, and attitudes iii. The responsibility of all personnel for quality relating to the performance of engagements or activities within the system of quality management and their expected behavior iv. The importance of quality in the firm's strategic decisions and actions, including the firm's financial and operational priorities 			
Financial and Strategic Priorities					
GOV QO-1	GOV QRI-8	As the firm opens new offices or undergoes mergers or acquisitions, consistent culture is not permeated throughout the firm.	Choose an item.	Choose an item.	Choose an item.
GOV QO-1	GOV QRI-9	The firm does not prioritize quality in merger decisions. (For example, does the target firm meet our quality expectations and is it assessed for quality during due diligence?)	Choose an item.	Choose an item.	Choose an item.
GOV QO-1	GOV QRI-10	The firm accepts engagements in conjunction with a practice acquisition or strategic hire that otherwise would not meet the firm's engagement acceptance or continuance criteria.	Choose an item.	Choose an item.	Choose an item.
GOV QO-2	QM sec. 10, par. .29b	Leadership is responsible and accountable for quality.			
GOV QO-2	GOV QRI-11	Leadership is not responsible or accountable for quality.	Choose an item.	Choose an item.	Choose an item.
GOV QO-2	GOV QRI-12	Leadership is not evaluated and held accountable for demonstrating a culture that has quality at its core.	Choose an item.	Choose an item.	Choose an item.
GOV QO-2	GOV QRI-13	The performance evaluations required by Statement on Quality Management Standards (SQMS) No. 1, <i>A Firm's System of Quality Management</i> (paragraph 57), of the firm's managing partner and the quality management (QM) partner are not conducted effectively or not acted upon appropriately.	Choose an item.	Choose an item.	Choose an item.
GOV QO-2	GOV QRI-14	Leadership and employees in firm leadership positions do not have sufficient and appropriate understanding of quality management standards or the firm's SOQM to fulfill their leadership responsibilities.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk (QR)	Likelihood	Impact	Quality Risk
GOV QO-2	QM sec. 10, par. .29b	Leadership is responsible and accountable for quality.			
GOV QO-2	GOV QRI-15	Leadership responsibilities and accountability for quality are not clearly defined and assigned.	Choose an item.	Choose an item.	Choose an item.
GOV QO-2	GOV QRI-16	The firm does not hold employees in leadership positions accountable for behaviors in which quality was not demonstrated.	Choose an item.	Choose an item.	Choose an item.
GOV QO-2	GOV QRI-17	The tone, messaging, and communication that exists at the firm's [national, regional, or office] leadership levels is not embraced or communicated throughout the firm.	Choose an item.	Choose an item.	Choose an item.
GOV QO-3	QM sec. 10, par. .29c	Leadership demonstrates a commitment to quality through its actions and behaviors.			
GOV QO-3	GOV QRI-18	Leadership does not demonstrate a commitment to quality through its actions and behaviors (for example, establishing the tone at the top through their actions and behaviors and clear, consistent, and frequent actions and communications at all levels within the firm).	Choose an item.	Choose an item.	Choose an item.
GOV QO-3	GOV QRI-19	Professionals in leadership positions who work on accounting and auditing engagements do not demonstrate a commitment to quality while working on such engagements.	Choose an item.	Choose an item.	Choose an item.
GOV QO-3	GOV QRI-20	The actions and decisions of partners and employees in leadership positions do not demonstrate a commitment to quality (for example, resource allocation, acceptance, continuation, compensation, and advancement decisions).	Choose an item.	Choose an item.	Choose an item.
GOV QO-3	GOV QRI-21	Unethical behavior is unchallenged or noncompliance with the SOQM is not addressed, including swift disciplinary action by leadership when warranted.	Choose an item.	Choose an item.	Choose an item.
GOV QO-3	GOV QRI-22	Leadership "tone at the top" is ineffective at building a commitment to quality for all employees.	Choose an item.	Choose an item.	Choose an item.
GOV QO-3	GOV QRI-23	Professionals in leadership positions prioritize economic gain over quality through their actions and behaviors.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk (QR)	Likelihood	Impact	Quality Risk
GOV QO-3	QM sec. 10, par. .29c	Leadership demonstrates a commitment to quality through its actions and behaviors.			
GOV QO-3	GOV QRI-24	Leadership lacks the resources to enforce the principles of SQMS No. 1.	Choose an item.	Choose an item.	Choose an item.
GOV QO-4	QM sec. 10, par. .29d	The organizational structure and assignment of roles, responsibilities, and authority is appropriate to enable the design, implementation, and operation of the firm’s system of quality management.			
Organizational Structure					
GOV QO-4	GOV QRI-25	The organizational structure and assignment of roles, responsibilities, and authority is not appropriate and does not enable the design, implementation, and operation of the firm’s SOQM.	Choose an item.	Choose an item.	Choose an item.
GOV QO-4	GOV QRI-26	The firm may be growing through acquisition at a pace faster than its current SOQM and organizational structure can support.	Choose an item.	Choose an item.	Choose an item.
GOV QO-4	GOV QRI-27	Regarding the use of service delivery centers, the organizational structure and assignment of roles, responsibilities, and authority is not appropriate for, or is not effective at, achieving the objectives of the SOQM.	Choose an item.	Choose an item.	Choose an item.
Roles, Responsibility, and Authority					
GOV QO-4	GOV QRI-28	The managing partner lacks assurance experience.	Choose an item.	Choose an item.	Choose an item.
GOV QO-4	GOV QRI-29	Persons assigned roles relevant to the SOQM lack the skills, knowledge, and experience to undertake those roles.	Choose an item.	Choose an item.	Choose an item.
GOV QO-4	GOV QRI-30	Persons assigned roles relevant to the SOQM lack the authority to be able to successfully implement policies and procedures.	Choose an item.	Choose an item.	Choose an item.
GOV QO-4	GOV QRI-31	The firm does not adequately communicate the firm’s expectations regarding firm culture and expected behaviors of its professionals.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk (QR)	Likelihood	Impact	Quality Risk
GOV QO-4	QM sec. 10, par. .29d	The organizational structure and assignment of roles, responsibilities, and authority is appropriate to enable the design, implementation, and operation of the firm's system of quality management.			
GOV QO-4	GOV QRI-32	The firm does not have a process that continually monitors compliance with relevant ethical requirements (that is, code of professional conduct, state licensing, and other regulatory bodies).	Choose an item.	Choose an item.	Choose an item.
GOV QO-5	QM sec. 10, par. .29e	Resource needs, including financial resources, are planned for, and resources are obtained, allocated, or assigned in a manner that is consistent with the firm's commitment to quality.			
GOV QO-5	GL QRI-33	Resource needs, including financial resources, are not obtained by, allocated, or assigned to the appropriate parties in a manner that facilitates the firm's commitment to quality.	Choose an item.	Choose an item.	Choose an item.
GOV QO-5	GL QRI-34	The firm's resource planning does not effectively determine the resources currently required.	Choose an item.	Choose an item.	Choose an item.
GOV QO-5	GL QRI-35	The firm's resource planning does not effectively forecast the firm's future resource needs.	Choose an item.	Choose an item.	Choose an item.
GOV QO-5	GL QRI-36	The firm's resource planning does not effectively establish processes to deal with unanticipated resource needs when they arise.	Choose an item.	Choose an item.	Choose an item.
GOV QO-5	GL QRI-37	The managing partner or QM partner are unwilling or unable to appropriately influence how those resources are allocated or assigned, including the timing of when they are used.	Choose an item.	Choose an item.	Choose an item.
GOV QO-5	GL QRI-38	Insufficient resources are allocated to developing an effective SOQM.	Choose an item.	Choose an item.	Choose an item.

Table 3: Required and Suggested Quality Responses — Governance and Leadership

QRe#	Quality Response (QRe)	Note, Tip, or Warning
Governance and Leadership		
GOV QRe-1	Policy: The firm assigns ultimate responsibility and accountability for the SOQM to the firm’s CEO or the firm’s managing partner (or equivalent) or, if appropriate, the firm’s managing board of partners (or equivalent).	NOTE: This is a required response. [QM sec. 10, par. .21a]
GOV QRe-1.01	The managing partner [Name] accepts ultimate responsibility for the firm’s SOQM and for setting a tone that emphasizes the importance of quality and of following the firm’s SOQM.	NOTE: The managing partner has the ultimate responsibility and that responsibility remains even if a different person is the QM partner. The person in charge of the audit and accounting practice, if different, is also responsible for setting the proper tone at the top.
GOV QRe-1.02	The managing partner acknowledges this responsibility, and the importance of quality, through [a written] communication to firm personnel at least once a year.	
GOV QRe-2	Policy: The firm assigns operational responsibility for the SOQM to individuals with the appropriate influence and authority within the firm.	NOTE: This is a required response. [QM sec. 10, par. .21b]
GOV QRe-2.01	[Name of partner or director] is designated as the QM partner and has overall responsibility for developing and implementing appropriate policies and procedures for the firm’s quality management system.	<p>NOTE: As your firm grows or develops specializations, the firm may need to designate additional partners with QM responsibility.</p> <p>TIP: Names can be maintained in a separate chart for ease of updating.</p>
GOV QRe-3	<p>Policy: The firm assigns operational responsibility for specific aspects of the SOQM to individuals with the appropriate influence and authority within the firm, including</p> <ul style="list-style-type: none"> • compliance with independence requirements, and • the monitoring and remediation process. 	<p>NOTE: The number of individuals assigned operational responsibility for various aspects of the firm’s SOQM depends on the size and structure of the firm.</p> <p>NOTE: This is a required response. [QM sec. 10, par. .21c]</p>
GOV QRe-4	Policy: The firm documents its QM policies and procedures and communicates them to the firm’s personnel.	
GOV QRe-4.01	The QM partner is responsible for documenting the firm’s QM policies and procedures and keeping that documentation up to date (reviewing at least annually).	

QRe#	Quality Response (QRe)	Note, Tip, or Warning
Governance and Leadership		
GOV QRe-4.02	New hires are required to acknowledge receipt of the firm's QM document in writing, and that they have been informed that failure to adhere to the firm's policies and procedures or failure to demonstrate commitment to ethical principles may result in disciplinary action.	
GOV QRe-4.03	At least annually, firm personnel receive training on the firm's QM policies and procedures and acknowledge receipt of the QM document. This training is provided through <i>[select as appropriate: an informal discussion; an in-house training session; or in-house training sessions with a web-based or video-based discussion of QM to ensure all personnel hear the message the same way]</i> .	
GOV QRe-4.04	Firm training on the firm's QM policies and procedures includes the following: <ul style="list-style-type: none"> • A review of changes during the year • A "refresh" of the understanding of experienced employees and partners • A discussion of the "why" behind policies and procedures. Those responsible for QM matters are always prepared to demonstrate, explain, or make the case for why a requirement is in place (that is, what benefit it serves). • "Tests" on the QM document to determine which part of the policy is misunderstood or not well known 	
GOV QRe-5	Policy: The firm's policy is to promote an internal culture that recognizes that quality is essential in performing engagements.	
GOV QRe-5.01	The firm promotes an internal culture that recognizes quality is essential through <i>[describe the firm's specific actions, for example, a mission statement that includes the firm's core values and the importance of quality; frequent messages to personnel about the importance of quality and that it is not sacrificed for the need to achieve profitability; the status of the QM partner within the firm (that is, the QM function is not relegated to an administrative role); the QM partner reports directly to the managing partner; and considering quality in performance appraisals and compensation]</i> .	<p>TIP: Culture is evidenced anecdotally. The most meaningful document that conveys a firm's culture is not its mission statement but, rather, its budget. How the firm allocates its resources, including financial and human, is critical to achieving quality in performing engagements.</p> <p>TIP: Messages can be as informal as emails or "reminders" at staff meetings.</p> <p>TIP: Establishing a code of conduct (and periodically revisiting that code for ongoing relevance) is one way to promote an internal culture that recognizes quality. How a firm follows and enforces the code of conduct (for example, actions taken when the code is not followed) also provides evidence of culture. In addition, evaluating trends in the volume or nature of unethical behavior that is reported and taking steps to improve is another way of reinforcing a culture of quality within a firm.</p>

QRe#	Quality Response (QRe)	Note, Tip, or Warning
Governance and Leadership		
GOV QRe-6	Policy: The firm does not allow financial and operational priorities to override the quality of the work performed and assigns management responsibilities accordingly.	
GOV QRe-6.01	The managing partner and each engagement partner evaluate client relationships and specific engagements so that financial and operational priorities do not override the objectives of the SOQM.	NOTE: Tight deadlines, scope creep, and incentive-based compensation are examples of matters that may result in overrides to the objectives of the SOQM.
GOV QRe-6.02	The firm emphasizes to all personnel that fee considerations and scope of services should not infringe upon quality work.	NOTE: What happens in your firm if the engagement team goes significantly over budget for the engagement? Is there explicit or implicit pressure on personnel to skip planned procedures due to time constraints?
GOV QRe-6.03	The firm considers the costs associated with a strong SOQM, such as the costs of maintaining necessary competency, practice aids and professional subscriptions, hiring consultants and EQ reviewers, and so on, as an investment and factors them in when determining rates and fees.	
GOV QRe-6.04	The firm's strategic decision-making process is aligned with the firm's quality objectives and approved by leadership with the ultimate responsibility for the firm's SOQM.	NOTE: A firm's business strategy may include matters such as the firm's decisions about financial and operational matters, the firm's financial goals, how financial resources are managed, growth of the firm's market share, industry specialization, or new service offerings.
GOV QRe-7	Policy: Personnel with sufficient and appropriate experience, authority, and ability are assigned responsibility for developing, implementing, and operating the firm's SOQM.	NOTE: This is a required response. [QM sec. 10, par. .20]
GOV QRe-7.01	<p>The firm's QM partner has the following characteristics:</p> <ul style="list-style-type: none"> • Sufficient and appropriate experience and competency to serve in that capacity • Up to date with industry-specific continuing professional education in any high-risk areas the QM partner reviews • Has no history of significant performance issues identified through regulator inspections, internal monitoring, or peer review 	NOTE: "Up to date" means within the past 24 months or sooner if there have been new professional standards or changes in regulations.

QRe#	Quality Response (QRe)	Note, Tip, or Warning
Governance and Leadership		
GOV QRe-8	Policy: The firm devotes sufficient and appropriate resources for the development, communication, and support of its quality management policies and procedures.	
GOV QRe-8.01	The firm provides the designated QM partner with sufficient time, authority, and resources to develop, implement, and maintain the firm's QM policies and procedures.	NOTE: Is this time budgeted?
GOV QRe-8.02	The quality management partner has the ability to influence the nature and extent of resources that the firm obtains, develops, uses, and maintains.	
GOV QRe-8.03	The quality management partner has the authority to determine how resources are allocated or assigned, including the timing of when they are used.	
GOV QRe-8.04	The firm annually performs resource planning that includes <ul style="list-style-type: none"> • determining the resources currently required, • forecasting the firm's future resource needs, and • establishing processes to deal with unanticipated resource needs when they arise. 	
GOV QRe-8.05	The firm evaluates the effectiveness of the resources obtained, allocated, and assigned to ensure they support the firm's commitment to quality.	
GOV QRe-8.06	The firm obtains feedback from personnel, such as the method for personnel to propose new or revised policies and procedures.	TIP: This can be as informal as sending a request to all firm personnel when updating the firm's policies and procedure asking for input or as formal as using an independent third-party provider to facilitate the communication by personnel, anonymously if desired.
GOV QRe-9	Policy: Performance evaluation, compensation, and advancement (including incentive systems) with regard to firm partners and personnel demonstrate the firm's overarching commitment to the objectives of the SOQM.	
GOV QRe-9.01	Performance evaluation and advancement systems are designed and implemented so that partners and staff involved in the accounting and auditing practice are rewarded for the quality of their work and their compliance with professional standards.	WARNING: You may talk the talk, but if compensation is primarily based on concepts like realization and coming in under budget, you aren't walking the walk.

QRe#	Quality Response (QRe)	Note, Tip, or Warning
Governance and Leadership		
GOV QRe-9.02	<p>The firm's compensation system provides incentives to accounting and auditing partners and senior-level employees to perform high-quality accounting and auditing work. The compensation system does the following:</p> <ul style="list-style-type: none"> • Takes into consideration firm feedback based on monitoring results and peer reviews of the work performed • Rewards partners and personnel for timely (a) identification of significant and emerging accounting and auditing issues and (b) consultation with firm experts 	<p>NOTE: Quality is both expected and rewarded.</p> <p>TIP: Defining how quality will be measured and incorporating quality-related measures in personnel evaluations, with associated effects on compensation and promotion, demonstrates the firm's commitment to quality.</p>
GOV QRe-9.03	Leadership includes quality initiatives as a goal to be measured each year.	
GOV QRe-9.04	Performance evaluation and advancement systems are designed and implemented so that partners and staff are rewarded for their professional values and attitudes.	<p>NOTE: Professional values and attitudes may include the following:</p> <ul style="list-style-type: none"> • Professional manner; for example, timeliness, courteousness, respect, accountability, responsiveness, and dependability • A commitment to teamwork • Maintaining an open mind to new ideas or different perspectives in the professional environment • Pursuit of excellence • A commitment to continual improvement (for example, setting expectations beyond the minimum requirements and placing a focus on continual learning) • Social responsibility

Table 4: Example of Evaluated Quality Risks and Linked Responses — Governance and Leadership

The following table provides examples of evaluated quality risks and linked responses to each quality risk. Please note that this is for illustrative purposes only. Your firm may identify other risks, may evaluate the likelihood and impact of those risks differently, and may choose other responses. The examples are not complete; if all you do is copy and paste these examples, your SOQM will not provide reasonable assurance of achieving its objectives.

The following examples illustrate the documentation of establishing quality objectives, evaluating quality risks, and designing the firm's responses to those quality risks. This is not a complete picture of an established SOQM. The implementation, evaluation, and monitoring of the system will need to be documented and established, as well.

Governance and Leadership							
GOV QO-1		<p>The firm demonstrates a commitment to quality through a culture that exists throughout the firm, which recognizes and reinforces the following:</p> <ul style="list-style-type: none"> i. The firm's role in serving the public interest by consistently performing quality engagements ii. The importance of professional ethics, values, and attitudes iii. The responsibility of all personnel for quality relating to the performance of engagements or activities within the system of quality management and their expected behavior iv. The importance of quality in the firm's strategic decisions and actions, including the firm's financial and operational priorities 					
QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk	Quality Response	QRe#
GOV QO-1	GOV QRi-3	The firm does not recognize or reinforce the importance of professional ethics, values, and attitudes.	Low	High	Yes	The firm promotes an internal culture that recognizes quality is essential through a mission statement that includes the firm's core values and the importance of quality; frequent messages to personnel about the importance of quality and that it is not sacrificed to the need to achieve profitability; the status of the QM partner within the firm (that is, the QM function is not relegated to an administrative role); the QM partner reports directly to the managing partner; and considering quality in performance appraisals and compensation.	GOV QRe-5.01

QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk	Quality Response	QRe#
GOV QO-1	GOV QRi-5	The firm does not recognize or reinforce the importance of quality in the firm's strategic decisions and actions, including the firm's financial and operational priorities.	Medium	High	Yes	The firm's strategic decision-making process is aligned with the firm's quality objectives and approved by leadership with the ultimate responsibility for the firm's SOQM.	GOV QRe-6.04
GOV QO-2	Leadership is responsible and accountable for quality.						
QO GOV-2	GOV QRi-11	Leadership is not responsible or accountable for quality.	Low	High	Yes	The managing partner [Name] accepts ultimate responsibility for the firm's SOQM and for setting a tone that emphasizes the importance of quality and of following the firm's SOQM.	GOV QRe-1.01
GOV QO-4	The organizational structure and assignment of roles, responsibilities, and authority is appropriate to enable the design, implementation, and operation of the firm's system of quality management.						
QO GOV-4	GOV QRi-32	The firm does not have a process that continually monitors compliance with relevant ethical requirements (that is, code of professional conduct, state licensing, and other regulatory bodies).	High	Medium	Yes	The firm assigns operational responsibility for specific aspects of the SOQM to individuals with the appropriate influence and authority within the firm, including <ul style="list-style-type: none"> • compliance with independence requirements, and the monitoring and remediation process. 	GOV QRe-3

Relevant Ethical Requirements

Table 1: Required Quality Objectives – Relevant Ethical Requirements

QO#	Ref:	Quality Objectives
RER QO-1	QM sec. 10, par. .30a	<p>The firm and its personnel</p> <ul style="list-style-type: none">i. understand the relevant ethical requirements to which the firm and the firm's engagements are subject.ii. fulfill their responsibilities in relation to the relevant ethical requirements to which the firm and the firm's engagements are subject.
RER QO-2	QM sec. 10, par. .30b	<p>Others, including the network, network firms, individuals in the network or network firms, or service providers, who are subject to the relevant ethical requirements to which the firm and the firm's engagements are subject</p> <ul style="list-style-type: none">i. understand the relevant ethical requirements that apply to them, andii. fulfill their responsibilities in relation to the relevant ethical requirements that apply to them.

Table 2: Required Quality Objectives and Potential Quality Risks – Relevant Ethical Requirements

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
RER QO-1	QM sec 10, par. .30a	The firm and its personnel i. understand the relevant ethical requirements to which the firm and the firm’s engagements are subject, and ii. fulfill their responsibilities in relation to the relevant ethical requirements to which the firm and the firm’s engagements are subject.			
RER QO-1	RER QRI-1	The firm and its personnel do not understand the relevant ethical requirements to which the firm and the firm’s engagements are subject.	Choose an item.	Choose an item.	Choose an item.
RER QO-1	RER QRI-2	The firm and its personnel fail to fulfill their responsibilities in relation to the relevant ethical requirements to which the firm and the firm’s engagements are subject.	Choose an item.	Choose an item.	Choose an item.
RER QO-1	RER QRI-3	The firm does not receive, investigate, or resolve complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements, or noncompliance with the firm’s policies or procedures established in accordance with the firm’s SOQM.	Choose an item.	Choose an item.	Choose an item.
RER QO-1	RER QRI-4	Consultation and evaluation of identified independence matters results in an incorrect conclusion.	Choose an item.	Choose an item.	Choose an item.
RER QO-1	RER QRI-5	Personnel and engagement teams are hesitant to communicate relevant information to the firm or those charged with overseeing relevant ethical requirements due to fear of reprisals.	Choose an item.	Choose an item.	Choose an item.
RER QO-1	RER QRI-6	The firm and its personnel do not identify, communicate, evaluate, or report ethical breaches.	Choose an item.	Choose an item.	Choose an item.
RER QO-1	RER QRI-7	Independence and objectivity are impaired due to a familiarity threat.	Choose an item.	Choose an item.	Choose an item.
RER QO-1	RER QRI-8	Independence may be influenced by gifts from management or the client.	Choose an item.	Choose an item.	Choose an item.
RER QO-1	RER QRI-9	Unpaid fees for professional services previously rendered to an attest client may create self-interest, or undue influence, or advocacy threats to compliance with the “Independence Rule” (ET sec. 1.200.001) of the AICPA Code of Professional Conduct.	Choose an item.	Choose an item.	Choose an item.
RER QO-1	RER QRI-10	The firm and its personnel do not timely identify, evaluate, or address noncompliance or threats to compliance with regulatory requirements.	Choose an item.	Choose an item.	Choose an item.

QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk
RER QO-2	QM sec. 10, par. 30b	Others, including the network, network firms, individuals in the network or network firms, or service providers, who are subject to the relevant ethical requirements to which the firm and the firm's engagements i. understand the relevant ethical requirements that apply to them, and i. fulfill their responsibilities in relation to the relevant ethical requirements that apply to them.			
RER QO-2	RER QRi-11	Others who are subject to the relevant ethical requirements to which the firm and the firm's engagements are subject do not understand the relevant ethical requirements that apply to them.	Choose an item.	Choose an item.	Choose an item.
RER QO-2	RER QRi-12	Others who are subject to the relevant ethical requirements to which the firm and the firm's engagements are subject do not fulfill their responsibilities in relation to the relevant ethical requirements that apply to them.	Choose an item.	Choose an item.	Choose an item.
RER QO-2	RER QRi-13	Network office does not understand the relevant ethical requirements that apply to the network or fulfill its responsibilities in relation to them.	Choose an item.	Choose an item.	Choose an item.
RER QO-2	RER QRi-14	Network firms used for component audits or other services do not understand the relevant ethical requirements that apply to them or fulfill their responsibilities in relation to them.	Choose an item.	Choose an item.	Choose an item.
RER QO-2	RER QRi-15	Non-network component auditors do not understand the relevant ethical requirements that apply to them or fulfill their responsibilities in relation to them.	Choose an item.	Choose an item.	Choose an item.

Table 3: Required and Suggested Quality Responses — Relevant Ethical Requirements

QRe#	Quality Response	Note, Tip, or Warning
Relevant Ethical Requirements		
RER QRe-1	Policy: The firm and its personnel comply with relevant ethical requirements.	TIP: Relevant ethical requirements are those in regulations, interpretations, and rules of the AICPA, state CPA societies, state boards of accountancy, state statutes, the U.S. Government Accountability Office (GAO), and any other applicable regulators.
RER QRe-1.01	A person with appropriate authority [Name] is responsible for staying informed on relevant ethical requirements; providing guidance; answering questions; monitoring compliance; and resolving matters with respect to independence, integrity, and objectivity.	TIP: The AICPA's Ethics Hotline can be reached at 877.777.7077 or ethics@aicpa.org . The AICPA Ethics Tools and Aids, including the Plain English Guide to Independence, can be found at https://pub.aicpa.org/codeofconduct/Ethics.aspx . NOTE: This is a required response. [QM sec. 10, par. .35a(i)]
RER QRe-1.02	Access to current guidance materials regarding the applicable independence, integrity, and objectivity requirements is available to all personnel through [identify how, for example, through subscription service or via the AICPA's website].	
RER QRe-1.03	Documentation of the resolution of ethical matters is required when consultation, including of professional literature or the AICPA Ethics Hotline, has occurred.	
RER QRe-1.04	The firm meets all the requirements of the "Nonattest Services" interpretation (ET sec. 1.295), and the requirements of other regulators, as applicable, when providing nonattest services (such as bookkeeping, financial statement preparation, and tax services) to clients for whom the firm also performs an audit, review, compilation, or attestation engagement.	WARNING: Peer reviewers will ask for documentation of compliance, including documentation that the client has suitable skills, knowledge, and experience to accept responsibility.
RER QRe-1.05	The firm has established and follows a process for identifying all services performed for each client and evaluating, at the attest engagement level, whether nonattest services are provided that might impair independence. [Describe the process.]	WARNING: As a firm gets larger, it may be more difficult for the firm to track what services are being performed for every client in order to determine that independence is not being impaired.

QRe#	Quality Response	Note, Tip, or Warning
Relevant Ethical Requirements		
RER QRe-1.06	<p>The firm maintains a current list of</p> <ul style="list-style-type: none"> • all entities with which firm personnel are prohibited from having a financial or business relationship and • all activities the firm is prohibited from performing, as defined in the firm's independence policies. 	<p>NOTE: Examples of prohibited activities include providing certain valuation and IT services to an audit client. See the rules of specific standard setters to determine the extent and relevance of any prohibition.</p>
RER QRe-2	<p>Policy: The firm communicates its independence requirements to firm personnel and, when applicable, others subject to them.</p>	<p>NOTE: Per-diem personnel are firm personnel.</p>
RER QRe-2.01	<p>The firm provides its personnel with a list of all entities with which firm personnel are prohibited from having a business relationship and informs them on a timely basis about any changes in the firm's clients to which independence policies apply.</p>	<p>WARNING: Your firm's system may need to take the existence of related entities into account.</p>
RER QRe-2.02	<p>The firm reminds personnel of independence considerations for regulated industries.</p>	<p>WARNING: Regulators often have more restrictive independence requirements. For example, many regulators prohibit the CPA's involvement in the preparation of financial statements and define "preparation" very broadly. Know your industry and its regulatory requirements.</p>
RER QRe-2.03	<p>The firm provides reminders of professional responsibilities to personnel, such as avoiding behavior that might be perceived as impairing their independence or objectivity, as necessary and at least annually.</p>	
RER QRe-2.04	<p>The firm informs its personnel of the types of financial or other relationships that may impair independence and that may be prohibited.</p>	
RER QRe-2.05	<p>The firm requires all professional personnel to take independence and ethics training [<i>specify period, such as annually</i>]. Such training covers the firm's independence and ethics policies and the independence and ethics requirements of all applicable regulators.</p>	<p>WARNING: The state-specific ethics course required by many states for licensure may not be sufficient for the needs of your practice, and your firm may have to supplement that.</p>
RER QRe-2.06	<p>The firm has clear and concise written independence guidance covering relationships and activities that impair independence, including investments, loans, brokerage accounts, business relationships, employment relationships, and fee arrangements.</p>	

QRe#	Quality Response	Note, Tip, or Warning
Relevant Ethical Requirements		
RER QRe-3	Policy: The firm evaluates threats to independence and objectivity, including the familiarity threat that may be created by using the same senior personnel on an audit or attest engagement over a long period of time. The firm takes appropriate action to eliminate or reduce these threats to an acceptable level by applying safeguards.	
RER QRe-3.01	Approval of the assignment of engagement personnel by another partner or manager is required for each audit or attestation examination.	
RER QRe-3.02	New personnel assigned to the engagement are encouraged to bring a fresh perspective.	WARNING: This procedure is effective only when you have the appropriate attitude.
RER QRe-3.03	A partner who is not otherwise associated with the engagement reviews the engagement.	
RER QRe-3.04	The firm (the managing partner, QM partner, and others, as appropriate) considers the significance of each client to the firm. In broad terms, the significance of a client to a firm refers to relationships that could diminish a practitioner's objectivity and independence in performing attest services. In determining the significance of a client, the firm considers (a) the amount of time the partner devotes to the engagement, (b) the effect on the partner's stature within the firm as a result of the partner's service to the client, (c) the manner in which the partner is compensated, and (d) the effect that losing the client would have on the partner and the firm.	
RER QRe-3.05	When a relationship or circumstance that may create threats to compliance with the rules is identified, the firm performs procedures to evaluate threats and apply safeguards (using the Conceptual Framework Toolkit for Members in Public Practice).	TIP: The Conceptual Framework Toolkit for Members in Public Practice is available at no charge at https://us.aicpa.org/content/dam/aicpa/interestareas/professionalethics/resources/downloadabledocuments/toolkitsandaids/conceptual-framework-toolkit-for-members-in-public-practice-final.pdf .
RER QRe-3.06	The engagement partner [<i>considers or provides the firm with</i>] relevant information about client engagements, including the scope of services and any changes, such as new engagements or changes in the level of service, to enable [<i>the engagement partner or the firm</i>] to evaluate the overall impact, if any, on independence requirements.	

QRe#	Quality Response	Note, Tip, or Warning
Relevant Ethical Requirements		
RER QRe-3.07	The firm requires personnel to promptly notify the firm of circumstances and relationships that create a threat to independence so that appropriate action can be taken.	
RER QRe-3.08	The firm compiles and communicates relevant information to appropriate personnel so that the firm and its personnel can readily determine whether they satisfy independence requirements; the firm can maintain and update information relating to independence; and the firm can take appropriate action regarding identified threats to independence that are not at an acceptable level.	
RER QRe-3.09	The firm requires personnel to consult with individuals outside the firm on independence, integrity, or objectivity concerns that research has not clearly resolved.	WARNING: Make sure personnel, including engagement partners, are encouraged to consult; if they ask only when they are sure there is a problem, problems may get overlooked. Not wanting to know the answer to an independence question is a good indication that consultation is needed. The AICPA's Ethics Hotline can be reached at 877.777.7077 or ethics@aicpa.org; the GAO's Yellow Book Technical Assistance can be reached at 202.512.9535 or yellowbook@gao.gov.
RER QRe-4	Policy: Firm personnel are required to notify the firm of breaches of the relevant ethical requirements, including independence requirements, and the firm takes appropriate actions to resolve such situations.	NOTE: This is a required response. [QM sec. 10, par. .35a(ii)]
RER QRe-4.01	All professional personnel are required to notify [<i>specify who in the firm, for example, the managing partner of the office</i>] of any potential activities involving themselves, their spouses, or their dependents that might impair independence or violate ethics rules, including services provided to entities with which firm personnel are prohibited from having a business relationship.	
RER QRe-4.02	The firm has a process that protects professional personnel who report potential ethics or independence violations to the proper parties in compliance with firm policy.	NOTE: This process can be as informal as a suggestion box or as formal as a whistleblower program.
RER QRe-4.03	The firm's policy and procedures manual sets forth the consequences for professional personnel who violate the firm's independence policies and procedures, including engaging in activities with entities with which firm personnel are prohibited from having a business relationship.	

QRe#	Quality Response	Note, Tip, or Warning
Relevant Ethical Requirements		
RER QRe-4.04	The firm determines the need for safeguards for engagements when the familiarity threat exists on an audit, review, or attestation engagement.	TIP: A familiarity threat may exist when, for example, the same engagement partner or senior manager has performed the engagement for the entity for an extended period of time, such as five years or more. The safeguard may be having an engagement quality control review or inspection performed periodically by someone not otherwise involved with the engagement.
RER QRe-4.05	The firm promptly communicates identified breaches of these policies and procedures, and the required corrective actions, to (a) the engagement partner who, with the firm, needs to address the breach, and (b) other relevant personnel in the firm and those subject to the independence requirements who need to take appropriate action.	NOTE: This is a required response. [QM sec. 10, par. .35a(ii)]
RER QRe-4.06	The engagement partner and other relevant personnel confirm to the firm that the required corrective actions have been taken.	NOTE: This is a required response. [QM sec. 10, par. .35a(ii)]
RER QRe-4.07	Appropriate personnel <i>[identify]</i> are responsible for periodically <i>[identify time period]</i> reviewing unpaid fees from clients to ascertain whether any outstanding amounts may impair the firm's independence and following up with the engagement partner.	See paragraphs .01–.02 of the "Unpaid Fees" interpretation (ET section 1.230.010).
RER QRe-5	Policy: The firm does not accept, or withdraws from, the engagement if effective safeguards to reduce threats to independence to an acceptable level cannot be applied.	WARNING: Threats to independence may arise during the engagement (for example, when the firm is asked to perform nonattest services during the course of an attest engagement or the assessment of the client's knowledge, skills, and experience changes). Evaluate threats and apply safeguards BEFORE performing the procedures.
RER QRe-5.01	The firm consults internally, and with legal counsel and other parties if necessary, when the firm believes that effective safeguards to reduce threats to independence to an acceptable level cannot be applied.	NOTE: The client's needs may be met with a different service that doesn't require independence.
RER QRe-5.02	The firm withdraws from the engagement when withdrawal is possible under applicable law or regulation, or does not accept the engagement, when effective safeguards to reduce threats to independence to an acceptable level cannot be applied.	

QRe#	Quality Response	Note, Tip, or Warning
Relevant Ethical Requirements		
RER QRe-6	Policy: The firm obtains written confirmation, upon hire and at least annually, of compliance with its policies and procedures regarding independence from all personnel required to be independent by relevant requirements.	NOTE: This is a required response. [QM sec. 10, par. .35b]
RER QRe-6.01	Personnel, including per-diem personnel, provide written representations, upon hire and on an annual basis, stating that they have read the firm's independence, integrity, and objectivity policies; understand the applicability of those policies to their activities; and have complied with the requirements of those policies since their last representation. Personnel are required to review the most current list of all entities with which firm personnel are prohibited from having a business relationship prior to providing the written representation.	
RER QRe-6.02	<i>[Specify name or position, for example, the firm's QM partner]</i> is responsible for obtaining such written representations, reviewing independence compliance files for completeness, and resolving reported exceptions.	NOTE: Par. .21c(i) requires the firm to assign operational responsibility for compliance with independence requirements to individuals with the appropriate influence and authority within the firm, typically partners.
RER QRe-6.03	On each engagement, the engagement partner signs a step in the engagement program attesting to compliance with independence requirements that apply to the engagement.	NOTE: This procedure necessitates that each engagement include a program step requiring sign-off for compliance with independence regulations, whether in the acceptance/continuance form or other phase of the engagement.
RER QRe-7	Policy: When another firm, or firm personnel in associated member firms, perform part of the engagement, the firm confirms the independence of the other firm and adherence to other relevant ethical requirements.	
RER QRe-7.01	Written confirmations are obtained regarding the other firm's independence with respect to audit engagements and either written or oral confirmations are obtained for review or attestation engagements. Oral confirmations are documented.	
RER QRe-7.02	The firm's policies and procedures manual or practice aids describe the form and content of independence representations, and the frequency with which they are to be obtained.	

QRe#	Quality Response	Note, Tip, or Warning
Relevant Ethical Requirements		
RER QRe-7.03	As a member of a network, the firm <ul style="list-style-type: none"> • meets all the relevant ethical requirements, and • monitors its independence with respect to financial statement audits, reviews, and other attest engagements performed by other members of the network. 	
RER QRe-8	Policy: The firm rotates personnel for audit or attest engagements for which regulatory or other authorities require such rotation after a specified period.	
RER QRe-8.01	The QM partner monitors regulatory requirements for financial institutions and other regulated entities and notifies partners of the need for rotation.	TIP: You may decide that for certain industries, rotation of partners, although not required by regulators, is appropriate for your SOQM.
RER QRe-9	Policy: The firm has procedures for receiving complaints about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements or noncompliance with the firm's policies and procedures, investigates the complaints, and resolves them.	NOTE: This is a required response. [QM sec. 10, par. .35c]
RER QRe-9.01	The firm informs its personnel of the process established for complaints and concerns to be raised without fear of reprisal.	
RER QRe-9.02	A survey is circulated to clients annually to inquire about services rendered and to collect other feedback.	TIP: Consider debriefing with the client to receive feedback on the services provided.
RER QRe-9.03	Complaints and allegations received are referred to a partner not involved with the engagement to which the complaint relates for investigation or to an external party based on the seriousness and extent of the allegation.	
RER QRe-9.04	The firm has procedures for tracking complaints received and for tracking progress made for their investigation and timely resolution.	
RER QRe-9.05	Resolutions to complaints are documented and communicated to all relevant parties.	

Table 4: Example of Evaluated Quality Risks and Linked Responses – Relevant Ethical Requirements

The following table provides examples of evaluated quality risks and linked responses to each quality risk. Please note that this is for illustrative purposes only. Your firm may identify other risks, may evaluate the likelihood and impact of those risks differently, and may choose other responses. The examples are not complete; if all you do is copy and paste these examples, your SOQM will not provide reasonable assurance of achieving its objectives.

The following examples illustrate the documentation of establishing quality objectives, evaluating quality risks, and designing the firm's responses to those quality risks. This is not a complete picture of an established SOQM. The implementation, evaluation, and monitoring of the system will need to be documented and established, as well.

Relevant Ethical Requirements							
RER QO-1		The firm and its personnel i. understand the relevant ethical requirements to which the firm and the firm's engagements are subject, and ii. fulfill their responsibilities in relation to the relevant ethical requirements to which the firm and the firm's engagements are subject.					
QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk	Quality Response	QRe#
RER QO-1	RER QRi-3	The firm does not receive, investigate, or resolve complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements, or noncompliance with the firm's policies or procedures established in accordance with the firm's SOQM.	Low	High	Yes	The firm has procedures for receiving complaints about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements or noncompliance with the firm's policies and procedures, investigates the complaints, and resolves them.	RER QRe-9
RER QO-1	RER QRi-3	The firm does not receive, investigate, or resolve complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements, or noncompliance with the firm's policies or procedures	Medium	High	Yes	Complaints and allegations received are referred to a partner not involved with the engagement to which the complaint relates for investigation or to an external party based on the seriousness and extent of the allegation.	RER QRe-9.03
RER QO-1	RER QRi-5	Personnel and engagement teams are hesitant to communicate relevant information to the firm or those charged with overseeing relevant ethical requirements due to fear of reprisals.	Low	High	Yes	The firm has a process that protects professional personnel who report potential ethics or independence violations to the proper parties in compliance with firm policy.	RER QRe-4.02 178

Acceptance and Continuance of Client Relationships and Specific Engagements

Table 1: Required Quality Objectives — Acceptance and Continuance of Client Relationships and Specific Engagements

QO #	Ref:	Quality Objectives
EAC QO-1	QM sec. 10, par. .31a(i)	Firm judgments about whether to accept or continue a client relationship or specific engagement are appropriate based on information obtained 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) that is sufficient to support such judgments.
EAC QO-2	QM sec. 10, par. .31a(ii)	Firm judgments about whether to accept or continue a client relationship or specific engagement are appropriate based on the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.
EAC QO-3	QM sec. 10, par. .31b	The financial and operational priorities of the firm do not lead to inappropriate judgments about whether to accept or continue a client relationship or specific engagement.

Table 2: Required Quality Objectives and Potential Quality Risks — Acceptance and Continuance of Client Relationships and Specific Engagements

QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk
EAC QO-1	QM sec. 10, par. 31a(i)	Firm judgments about whether to accept or continue a client relationship or specific engagement are appropriate based on information obtained 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) that is sufficient to support such judgments.			
EAC QO-1	EAC QRi-1	The firm does not obtain information about the nature and circumstances of the engagement and the client (including management and, when appropriate, those charged with governance) that is sufficient to support judgments about client acceptance or continuance.	Choose an item.	Choose an item.	Choose an item.
Engagement Nature					
EAC QO-1	EAC QRi-2	The firm does not understand the industry of the entity for which the engagement is being undertaken, as well as the relevant regulatory factors.	Choose an item.	Choose an item.	Choose an item.
EAC QO-1	EAC QRi-3	The firm does not understand the nature of the entity, for example, its operations, organizational structure, ownership and governance, its business model and how it is financed. (Information gathering efforts do not address all relevant information or subsidiaries or affiliates).	Choose an item.	Choose an item.	Choose an item.
EAC QO-1	EAC QRi-4	The firm fails to obtain or understand the nature and circumstances of the engagement.	Choose an item.	Choose an item.	Choose an item.
Integrity					
EAC QO-1	EAC QRi-5	The firm does not adequately evaluate the integrity and ethical values of the appropriate owners, key management, related parties, and those charged with governance.	Choose an item.	Choose an item.	Choose an item.
Inaccurate or Incomplete Information					
EAC QO-1	EAC QRi-6	The firm does not properly evaluate or consider information that was obtained from the acceptance or continuance process.	Choose an item.	Choose an item.	Choose an item.

QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk
EAC QO-1	QM sec. 10, par. 31a(i)	Firm judgments about whether to accept or continue a client relationship or specific engagement are appropriate based on information obtained 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) that is sufficient to support such judgments.			
EAC QO-1	EAC QRi-7	Information obtained during the acceptance or continuance process of a client relationship or specific engagement is not sufficient, is not derived from credible sources, or does not support the firm's judgment about the integrity and ethical values of the client.	Choose an item.	Choose an item.	Choose an item.
EAC QO-1	EAC QRi-8	The firm starts work on a client engagement before acceptance or continuance is approved.	Choose an item.	Choose an item.	Choose an item.
EAC QO-1	EAC QRi-9	The firm starts work on a client engagement before the client has agreed to the terms of the engagement.	Choose an item.	Choose an item.	Choose an item.
EAC QO-1	EAC QRi-10	The firm does not consider information obtained subsequent to the approved acceptance of the client or engagement.	Choose an item.	Choose an item.	Choose an item.
EAC QO-1	EAC QRi-11	The firm accepts or continues an engagement when the terms of the engagements are not clear or properly agreed upon, which may lead to liability or damage to the firm's reputation.	Choose an item.	Choose an item.	Choose an item.
EAC QO-1	EAC QRi-12	The firm does not identify threats, such as nonattest services, to independence or other ethical requirements.	Choose an item.	Choose an item.	Choose an item.
EAC QO-1	EAC QRi-13	The firm's investigation research tool does not provide accurate results or is limited in its ability. For example, the tool searches only within the United States.	Choose an item.	Choose an item.	Choose an item.
EAC QO-1	EAC QRi-14	The firm does not apply all client acceptance procedures to all clients from an office acquisition or merger.	Choose an item.	Choose an item.	Choose an item.
EAC QO-1	EAC QRi-15	The firm or engagement team does not take appropriate action when they become aware of information that may have caused the firm to decline the client relationship or specific engagement had the firm known that information prior to accepting or continuing such relationship.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
EAC QO-1	QM sec. 10, par. 31a(i)	Firm judgments about whether to accept or continue a client relationship or specific engagement are appropriate based on information obtained 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) that is sufficient to support such judgments.			
Improper Review					
EAC QO-1	EAC QRI-16	The firm does not assign acceptance or continuance approval responsibilities to an individual who has the knowledge and expertise to adequately evaluate them (balancing risk vs. economic benefit).	Choose an item.	Choose an item.	Choose an item.
EAC QO-1	EAC QRI-17	The engagement partner does not (a) follow the firm’s policies or procedures for the acceptance or continuance of a client relationship or specific engagement or (b) take responsibility for the appropriateness of the conclusions reached in the acceptance or continuance of a client relationship or specific engagement, which includes appropriately considering whether significant matters that have arisen during the previous engagement have implications for continuing the engagement or relationship.	Choose an item.	Choose an item.	Choose an item.
Individual Compensation and Goals					
EAC QO-1	EAC QRI-18	The individual who is responsible for approving acceptance or continuance evaluation is not compensated and evaluated in a manner that holds them accountable for the results of poor acceptance or continuance decisions.	Choose an item.	Choose an item.	Choose an item.
EAC QO-2	QM sec. 10, par. 31a(ii)	Firm judgments about whether to accept or continue a client relationship or specific engagement are appropriate based on the firm’s ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.			
Operational Constraints					
EAC QO-2	EAC QRI-19	The firm accepts or continues an engagement with unreasonable final issuance expectations or insufficient staffing to complete the engagement.	Choose an item.	Choose an item.	Choose an item.
EAC QO-2	EAC QRI-20	The firm agrees to work not included in the original scope without following the firm’s procedures for changes in work scope.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
EAC QO-2	QM sec. 10, par. 31a(ii)	Firm judgments about whether to accept or continue a client relationship or specific engagement are appropriate based on the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.			
EAC QO-2	EAC QRI-21	The firm inappropriately accepts a client relationship or specific engagement because the firm has excess staff capacity.	Choose an item.	Choose an item.	Choose an item.
Ability to Perform – Competency and Capacity					
EAC QO-2	EAC QRI-22	The firm accepts or continues a client relationship or specific engagement when the firm does not have the ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.	Choose an item.	Choose an item.	Choose an item.
EAC QO-2	EAC QRI-23	The firm does not understand the nature of the underlying subject matter and the applicable criteria by which it must be evaluated.	Choose an item.	Choose an item.	Choose an item.
EAC QO-2	EAC QRI-24	The firm does not identify or understand professional standards or applicable legal and regulatory requirements that include specific provisions that need to be addressed before accepting or continuing a client relationship or specific engagement.	Choose an item.	Choose an item.	Choose an item.
EAC QO-2	EAC QRI-25	The firm does not evaluate the availability of appropriate resources that would be needed to perform the engagement. This would include consideration of core engagement team resources, engagement quality (EQ) review assignment, need for specialists, or other experts or IT system requirements.	Choose an item.	Choose an item.	Choose an item.
EAC QO-2	EAC QRI-26	Training on, and communication of, the firm's acceptance or continuance policies and procedures and any changes to them for all partners and professional staff are not adequate or timely.	Choose an item.	Choose an item.	Choose an item.
EAC QO-2	EAC QRI-27	The firm inappropriately accepts a client relationship or specific engagement when the firm does not have sufficient staffing capacity, and the firm cannot create the required capacity through talent acquisition or other means.	Choose an item.	Choose an item.	Choose an item.
EAC QO-2	EAC QRI-28	The firm inappropriately accepts a client relationship or specific engagement when the firm does not have personnel with adequate competency or technical training to perform and supervise the engagement.	Choose an item.	Choose an item.	Choose an item.

QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk
EAC QO-2	QM sec. 10, par. .31a(i)	Firm judgments about whether to accept or continue a client relationship or specific engagement are appropriate based on the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.			
Ability to Perform – Competency and Capacity					
EAC QO-2	EAC QRi-29	The firm's acceptance of a client results in the violation of an ethical or legal requirement (such as independence or conflict of interest).	Choose an item.	Choose an item.	Choose an item.
EAC QO-2	EAC QRi-30	The firm does not evaluate whether the firm and the engagement team are able to fulfill their responsibilities in relation to the relevant ethical requirements.	Choose an item.	Choose an item.	Choose an item.
EAC QO-2	EAC QRi-31	The firm fails to timely evaluate or revise acceptance or continuance policies and procedures for client relationships or specific engagements that pose threats to compliance with rules and regulations arising from (a) changes in independence rules or interpretations, and (b) new laws or regulations affecting such client relationships or specific engagements.	Choose an item.	Choose an item.	Choose an item.
EAC QO-2	EAC QRi-32	Firm partner accepts or continues an engagement that does not meet the firm's engagement acceptance or continuation criteria or is otherwise prohibited by the firm.	Choose an item.	Choose an item.	Choose an item.
EAC QO-2	EAC QRi-33	The firm does not recognize when the firm is obligated by law or regulation to accept or continue a client relationship or specific engagement, nor understand the appropriate procedures to follow in such circumstances.	Choose an item.	Choose an item.	Choose an item.
EAC QO-2	EAC QRi-34	The engagement partner accepts or continues an engagement without appropriately identifying and evaluating the effect of nonattest services on firm independence.	Choose an item.	Choose an item.	Choose an item.

QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk
EAC QO-3	QM sec. 10, par. .31b	The financial and operational priorities of the firm do not lead to inappropriate judgments about whether to accept or continue a client relationship or specific engagement.			
Firm Compensation and Goals					
EAC QO-3	EAC QRi-35	The financial and operational priorities of the firm lead to inappropriate judgments about whether to accept or continue a client relationship or specific engagement.	Choose an item.	Choose an item.	Choose an item.
EAC QO-2	EAC QRi-36	The proposed fee is materially inadequate for the time and resources required to perform a quality and profitable engagement.	Choose an item.	Choose an item.	Choose an item.
EAC QO-2	EAC QRi-37	The firm inappropriately accepts a client or engagement because large fees, financial benefit, or opportunity for the firm outweigh concerns over risks relating to, for example, resources, competencies, management integrity, or other issues.	Choose an item.	Choose an item.	Choose an item.

Table 3: Required and Suggested Quality Responses – Acceptance and Continuance of Client Relationships and Specific Engagements

QRe#	Quality Response	Note, Tip, or Warning
Acceptance and Continuance of Client Relationships and Specific Engagements		
		<p>WARNING: A firm’s client acceptance and continuance policies represent a key element in mitigating litigation and business risk. Consider both the client’s integrity and reputation and your firm’s expertise and ability to meet the client’s needs. Both of these factors can affect the firm’s reputation and involvement in litigation.</p>
EAC QRe-1	<p>Policy: The firm considers the risk associated with providing professional services in particular circumstances, including evaluating factors that have a bearing on management’s integrity. The firm only accepts or continues engagements and client relationships when it concludes that the risk is at an acceptable level.</p>	<p>NOTE: The risk is that (a) the firm and its personnel will fail to comply with professional standards and applicable legal and regulatory requirements, or (b) reports issued by the firm will not be appropriate in the circumstances.</p>
EAC QRe-1.01	<p>The firm informs personnel of the firm’s policies and procedures for accepting and continuing clients, through discussion or distribution of the firm’s policies and procedures manual, and informing professional personnel that they are expected to be familiar with the firm’s policies and procedures for the acceptance and continuance of clients, including who in the firm is authorized to accept engagements on behalf of the firm. Such policies and procedures state that the firm’s clients should not present undue risks to the firm, including damage to the firm’s reputation.</p>	
EAC QRe-1.02	<p>The firm communicates with the predecessor auditor as required, and considers communicating with the predecessor accountant when recommended, by professional standards. This communication includes inquiries regarding the nature of any disagreements and whether there is evidence of “opinion shopping.” If the client does not give permission to contact the predecessor, the firm considers the reasons why and implications for acceptance.</p>	<p>NOTE: Communicating with the predecessor auditor is required by generally accepted auditing standards. Other professional standards may require or recommend communicating with the predecessor accountant. Best practice is to communicate even if not required.</p>

QRe#	Quality Response	Note, Tip, or Warning
Acceptance and Continuance of Client Relationships and Specific Engagements		
EAC QRe-1.03	<p>The firm obtains and evaluates relevant information before accepting or continuing any client, such as</p>	<p>NOTE: This information directly relates to the risk that the firm will fail to perform and report in conformity with applicable professional standards. For smaller clients, this assessment may be quite simple. The results of this assessment are used in determining whether to accept the engagement, and if so, how the engagement is conducted.</p>
	<ul style="list-style-type: none"> • the nature and purpose of the services to be provided and management’s understanding thereof. • the identity of the client’s principal owners, key management, related parties, and those charged with its governance. • the nature of the client’s operations, including its business practices, from sources such as annual reports, interim financial statements, reports to and from regulators, income tax returns, and credit reports. • information obtained from inquiries of third parties about the client, its principal owners, key management, and those charged with governance that may have a bearing on evaluating the client. Examples of such third parties are bankers, factors, legal counsel, credit services, investment bankers, underwriters, and other members of the financial or business community who may have applicable knowledge. • information, from discussions with the client and inquiries of others, concerning the attitude of the client’s principal owners, key management, and those charged with its governance toward such matters as aggressive interpretation of accounting standards, compliance with laws and regulations, and internal control over financial reporting • emerging risks (for example, cryptocurrency, regulatory changes, or geopolitical events). 	<p>TIP: Review the state regulatory website for state-specific regulations that apply to your client— this could also affect supplemental information in your engagement letter.</p>
EAC QRe-1.04	<p>The firm conducts a background check of the business, its officers, and the persons in question by using resources available on the internet and evaluates the information obtained regarding management’s integrity. An investigative firm is used when the firm is unable to obtain sufficient information about the prospective client after completing the preceding steps, or when the firm becomes aware that there is an indication that management or someone affiliated with the prospective client may be less than reputable.</p>	

QRe#	Quality Response	Note, Tip, or Warning
Acceptance and Continuance of Client Relationships and Specific Engagements		
EAC QRe-1.05	The firm evaluates the risk of providing services to significant clients or to other clients for which the firm's objectivity may be, or appear to be, impaired. The firm takes appropriate safeguards if necessary or if safeguards cannot reduce the threat to objectivity and independence to an acceptably low level, the firm does not accept the engagement.	
EAC QRe-1.05	The firm considers the timing of the acceptance of the engagement and whether that affects the firm's ability to perform all procedures necessary for the engagement (for example, inventory observation, both beginning and ending.)	
EAC QRe-2	Policy: The firm evaluates whether the engagement can be completed with professional competence; undertakes only those engagements for which the firm has the capabilities, resources, and professional competence to complete; and evaluates, at the end of specific periods or upon occurrence of certain events, whether the relationship should be continued.	WARNING: This policy and its related procedures are KEY to managing the risk that the firm will fail to perform and report in conformity with applicable professional standards.
EAC QRe-2.01	If the engagement is for a level of service that the firm is not currently providing (for example, reviews or audits), the firm considers the implications for obtaining the necessary competency and the implications for peer review.	
EAC QRe-2.02	The firm defines <i>high-risk engagements</i> based on the characteristics of the firm. The firm considers the following criteria in determining whether the engagement is high risk <i>[list criteria, such as the following]</i> :	NOTE: High-risk engagements, by their nature, require more resources.
	<ul style="list-style-type: none"> • Whether the client is in a specialized industry — that is, an industry for which there is an AICPA Audit and Accounting Guide, or the engagement is subject to governmental auditing standards — and the extent of the firm's experience in this area. 	WARNING: "You don't know what you don't know" when performing an engagement in a specialized industry for which your firm does not have expertise. Specialized industries require an ongoing investment in training to obtain and maintain the necessary competence.

QRe#	Quality Response	Note, Tip, or Warning
Acceptance and Continuance of Client Relationships and Specific Engagements		
		List of AICPA Audit and Accounting Guides for specific industries: <ul style="list-style-type: none">• Airlines• Construction Contractors• Employee Benefit Plans• Investment Companies• Life and Health Insurance Entities• Not-for-Profit Entities• Property and Liability Insurance Entities• State and Local Governments• Brokers and Dealers in Securities• Depository and Lending Institutions: Banks and Savings Institutions, Credit Unions, Finance Companies, and Mortgage Companies• Entities With Oil and Gas Producing Activities• Gaming• Health Care Entities• <i>Government Auditing Standards</i> and Single Audits
	<ul style="list-style-type: none">• New industry for the firm.	WARNING: Accepting an engagement in a new industry requires the firm to learn that industry. Hiring experienced staff, more consultation, performing an EQ review – these may all be necessary and come at a cost.
	<ul style="list-style-type: none">• New or specialized accounting pronouncements apply to the client.• New professional standards apply to the firm relating to the engagements.	
	<ul style="list-style-type: none">• Engagements that require an inordinate amount of time to complete relative to the available resources of the firm.	NOTE: Engagements like this can affect the firm’s other engagements.
	<ul style="list-style-type: none">• The existence of conditions such as aggressive earnings management, unreliable processes for developing accounting estimates or questionable estimates by management, and questions regarding the entity’s ability to continue as a going concern.• Emerging risks in existing clients (for example, cryptocurrency, regulatory changes, or geopolitical events).• The entity is in development stage.	

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QRe#	Quality Response	Note, Tip, or Warning
Acceptance and Continuance of Client Relationships and Specific Engagements		
EAC QRe-2.03	The firm accepts engagements that meet the firm's criteria as high risk only when the firm has, or is willing to make, the investment to acquire the necessary competency. The firm acknowledges that accepting a high-risk engagement entails assigning more experienced staff, may necessitate the use of external resources, and requires that an EQ review be performed.	WARNING: An otherwise low-risk client might have transactions that are so risky that the firm may decide to not accept the engagement or apply safeguards addressed only at that risk.
EAC QRe-2.04	The firm evaluates whether it (or its practice office) has, or can reasonably expect to obtain, the competency and capability necessary to perform the engagement, including relevant regulatory or reporting requirements.	WARNING: The firm is required to have obtained the necessary knowledge and expertise before the report is issued to have reasonable assurance that the firm met professional standards and that the report is appropriate. Best practice is to have that knowledge and expertise when planning the engagement, so you don't have to go back at the end and identify what you didn't know at the beginning.
EAC QRe-2.05	<p>The firm determines the following before accepting an engagement:</p> <ul style="list-style-type: none"> • Sufficient personnel with the necessary capabilities and competence are available. This includes determining that personnel have sufficient knowledge and experience for specialized industries and the firm has sufficient technical resources available to engagement personnel, including audit and accounting guides, and, when necessary, has arranged for personnel to receive appropriate continuing professional education and training. • Whether specialists will be needed, and if so, will be available (for example, through the resources of another practice office or alternative source). 	<p>NOTE: The QM standards require that the EQ review be performed at appropriate points during the engagement. Identifying the person who will perform the EQ review as soon as the need for an EQ review has been identified, even if it is prior to acceptance of the engagement, and agreeing on engagement terms, best allows for this. Delaying after the need is identified creates concern that an EQ reviewer will not be available and creates time pressure to identify an EQ reviewer by the appropriate point in the engagement (when the cost may be higher).</p>
	<ul style="list-style-type: none"> • That individuals meeting the criteria and eligibility requirements to perform an EQ review are available when needed, for example, for engagements that meet the firm's definition of <i>high risk</i>. 	
	<ul style="list-style-type: none"> • The firm is able to complete the engagement within the reporting deadline. 	

QRe#	Quality Response	Note, Tip, or Warning
Acceptance and Continuance of Client Relationships and Specific Engagements		
EAC QRe-2.06	<p>The firm obtains relevant information to determine whether the relationship should be continued, and the firm evaluates the client continuance decision at least annually <i>[insert timing, for example, a preliminary decision at the end of the current-year engagement for (every client/high-risk clients) as part of finalizing the current-year engagement, and a final evaluation before the engagement letter is sent for the next engagement]</i>.</p>	<p>TIP: The benefit to considering whether to continue the engagement and client relationship at the end of the current engagement is that the memory is fresh in terms of client integrity and issues encountered, and there may be less financial pressure at this time.</p>
EAC QRe-2.07	<p>The following are conditions that the firm considers in evaluating whether to continue an engagement or client relationship <i>[describe conditions, such as the following]</i>:</p> <ul style="list-style-type: none"> • The existence of conditions such as <ul style="list-style-type: none"> – aggressive earnings management, – unreliable processes for developing accounting estimates or questionable estimates by management, or – questions regarding the entity's ability to continue as a going concern. • The entity is in the development stage. • The client is delinquent in paying fees. (This may also affect the firm's independence.) • The firm is unable to meet the client's deadlines. • The services required have grown beyond the firm's ability to deliver (scope creep). • The firm is no longer willing to make the investment required to maintain competency. • The firm is unable to obtain the necessary resources to carry out the engagement, such as a person to perform an EQ review or replace the loss of key personnel. • Internal or external inspections have indicated deficiencies in the execution of the engagement (or similar engagements) and the firm is unable to mitigate the deficiencies. • Partner rotation is required by law or regulation for the engagement under consideration. • The client has ignored prior recommendations, such as those that address deficiencies in internal control. 	<p>WARNING: Do not put your clients on "auto-renew." Continuance of clients is an active decision and should be considered carefully without simply "defaulting" to the previous year's determination.</p>

QRe#	Quality Response	Note, Tip, or Warning
Acceptance and Continuance of Client Relationships and Specific Engagements		
EAC QRe-2.08	<p>When triggering events occur, the firm reevaluates the decision to accept or continue an engagement or client relationship.</p> <p>The following are examples of such triggering events:</p> <ul style="list-style-type: none"> • Significant changes in the client, such as a major change in ownership, senior client personnel, directors, advisers, the nature of the business, or its financial stability. <hr/> <ul style="list-style-type: none"> • Changes in the nature or scope of the engagement, such as <ul style="list-style-type: none"> – requests for additional services, – a request to step down from an audit to a review engagement, or – an initial public offering. <hr/> <ul style="list-style-type: none"> • The decision to discontinue services to clients in a particular industry. 	<p>NOTE: The procedure is not to decline the engagement when a request for a change is made but to evaluate the client's reasons for the request and then determine whether to accept or decline.</p>
EAC QRe-2.09	<p>When making the decision, the firm evaluates the information obtained regarding acceptance or continuance of the client or engagement by doing the following:</p> <hr/> <ul style="list-style-type: none"> • The engagement partner assesses the information obtained about the client or the specific engagement, including information about the significance of the client to the firm, <i>[using the AICPA Private Companies Practice Section (PCPS) Client Acceptance Evaluation Tool or Client Continuance Evaluation Tool.]</i> <hr/> <ul style="list-style-type: none"> • The engagement partner makes a recommendation about whether to accept or continue the engagement, or the client relationship, and submits the recommendation with supporting documentation to the managing partner (of the practice office or of the firm) for approval. <p>The engagement partner's recommendation is reviewed and approved by <i>[specify, for example, the QM partner or the managing partner, or in certain defined circumstances, such as high-risk engagements, both.]</i></p> <p>If the recommendation to accept a client or continue a client relationship is not approved, the managing partner and the other partners discuss the reasons why.</p>	<p>NOTE: Acceptance and continuance decisions are iterative and are made before each engagement is accepted and as necessary when circumstances change.</p> <hr/> <p>NOTE: The AICPA PCPS Client Acceptance Evaluation Tool and Client Continuance Evaluation Tool are free tools available at https://www.aicpa-cima.com/resources/landing/trusted-client-adviser-toolbox.</p>

QRe#	Quality Response	Note, Tip, or Warning
Acceptance and Continuance of Client Relationships and Specific Engagements		
EAC QRe-2.10	The engagement partner documents evidence of consideration and approval of engagement acceptance (or continuance) in the planning section of the engagement documentation.	
EAC QRe-3	Policy: The firm has established policies and procedures for circumstances in which information becomes known subsequent to accepting or continuing a client relationship or specific engagement that might have affected the firm's decision to accept or continue a client relationship or specific engagement.	NOTE: This is a required response. [QM sec. 10, par. .35d(i)]
EAC QRe-3.01	<p>When the firm becomes aware of information that would have caused the firm to decline the engagement if the information had been available earlier, the firm considers the following:</p> <ul style="list-style-type: none"> • Undertaking consultation within the firm or legal counsel • The professional and legal responsibilities that apply to the circumstances, including whether there is a requirement for the firm to continue the engagement or report to regulatory authorities • Discussing with the appropriate level of client's management and those charged with governance 	
	<ul style="list-style-type: none"> • Whether to withdraw from the engagement or from the client relationship 	NOTE: See procedures for withdrawal later in this document.
EAC QRe-4	Policy: The firm obtains an understanding with the client regarding the services to be performed.	TIP: Having an "evergreen" engagement letter, or an engagement letter that covers more than one year, exposes the firm to a variety of risks. If circumstances necessitate the use of a multi-year engagement letter, even when not required by the standards, best practice is to send a written letter annually confirming the existing terms and explaining any changes.
EAC QRe-4.01	The firm prepares a written engagement letter for each engagement, documenting the understanding with the client regarding the nature, scope, and limitations of the services to be performed.	
EAC QRe-4.02	The firm obtains the client's signature on that letter before significant resources are committed to the engagement.	
EAC QRe-4.03	If the nature or scope of the engagement changes, the firm documents the change in an addendum to the engagement letter that is sent to the client.	

QRe#	Quality Response	Note, Tip, or Warning
Acceptance and Continuance of Client Relationships and Specific Engagements		
EAC QRe-5	Policy: The firm has established procedures on withdrawal from an engagement or from both the engagement and the client relationship, as follows:	
EAC QRe-5.01	The firm considers whether there is a professional, regulatory, or legal requirement for the firm to remain in place.	NOTE: This is a required response. [QM sec. 10, par. .35d(ii)]
EAC QRe-5.02	<p>When the firm is unable to withdraw from an engagement and the firm is aware of information that would have caused the firm to decline or discontinue the engagement, the firm does the following:</p> <ul style="list-style-type: none"> • Considers the effect of the information on the performance of the engagement • Communicates the information to the engagement partner and requests the engagement partner to increase the extent and frequency of supervision and review • Assigns more experienced personnel to the engagement • Determines that an EQ review should be performed 	
EAC QRe-5.03	The firm considers whether there is a professional, regulatory, or legal requirement for the firm to report to regulatory authorities the withdrawal from the engagement, or from both the engagement and the client relationship, together with the reasons for the withdrawal.	
EAC QRe-5.04	The firm discusses with the appropriate level of the client's management and those charged with its governance withdrawal from the engagement or from both the engagement and the client relationship if the firm determines that it is appropriate to withdraw.	
EAC QRe-5.05	The firm considers the implications for previous engagements with this client, including the need to withdraw previously issued reports.	
EAC QRe-6	Policy: The firm documents how issues relating to acceptance or continuance of client relationships were resolved.	
EAC QRe-6.01	The firm documents, in a memorandum to the engagement files, significant issues, consultations, conclusions, and the basis for the conclusions relating to acceptance or continuance of client relationships and specific engagements.	

Table 4: Example of Evaluated Risks and Linked Responses – Acceptance and Continuance of Client Relationships and Specific Engagements

The following table provides examples of evaluated quality risks and linked responses to each quality risk. Please note that this is for illustrative purposes only. Your firm may identify other risks, may evaluate the likelihood and impact of those risks differently, and may choose other responses. The examples are not complete; if all you do is copy and paste these examples, your SOQM will not provide reasonable assurance of achieving its objectives.

The following examples illustrate the documentation of establishing quality objectives, evaluating quality risks, and designing the firm's responses to those quality risks. This is not a complete picture of an established SOQM. The implementation, evaluation, and monitoring of the system will need to be documented and established, as well.

Acceptance and Continuance of Client Relationships and Specific Engagements							
QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk	Quality Response	QRe#
EAC QO-1		Firm judgments about whether to accept or continue a client relationship or specific engagement are appropriate based on information obtained 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) that is sufficient to support such judgments.					
EAC QO-1	EAC QRi-2	The firm does not understand the entity's industry for which the engagement is being undertaken, as well as the relevant regulatory factors.	Low	High	Yes	The firm accepts engagements that meet the firm's criteria as high risk only when the firm has, or is willing to make, the investment to acquire the necessary competency. The firm acknowledges that accepting a high-risk engagement entails assigning more experienced staff, may necessitate the use of external resources, and requires that an EQ review be performed.	EAC QRe-2.03

QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk	Quality Response	QRe#
EAC QO-1	EAC QRi-15	The firm or engagement team does not take appropriate action when they become aware of information that may have caused the firm to decline the client relationship or specific engagement had the firm known that information prior to accepting or continuing such relationship.	Low	High	Yes	The firm has established policies and procedures for circumstances in which information becomes known subsequent to accepting or continuing a client relationship or specific engagement that might have affected the firm's decision to accept or continue a client relationship or specific engagement.	EAC QRe-3
EAC QO-2	EAC QRi-34	The engagement partner accepts or continues an engagement without appropriately identifying and evaluating the effect of nonattest services on firm independence.	Medium	Medium	Yes	The firm considers the risk associated with providing professional services in particular circumstances, including evaluating factors that have a bearing on management's integrity. The firm only accepts or continues engagements and client relationships when it concludes that the risk is at an acceptable level.	EAC QRe-1
EAC QO-2	Firm judgments about whether to accept or continue a client relationship or specific engagement are appropriate based on the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.						
EAC QO-2	EAC QRi-22	The firm accepts or continues a client relationship or specific engagement when the firm does not have the ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.	Medium	High	Yes	The firm evaluates whether the firm (or practice office) has, or can reasonably expect to obtain, the competency and capability necessary to perform the engagement, including relevant regulatory or reporting requirements.	EAC QRi-22

Engagement Performance

Table 1: Required Quality Objectives – Engagement Performance

QO #	Ref:	Quality Objectives
EP QO-1	QM sec. 10, par. .32a	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.
EP QO-2	QM sec. 10, par. .32b	The nature, timing, and extent of direction and supervision of engagement teams and review of the work performed is appropriate based on the nature and circumstances of the engagements and the resources assigned or made available to the engagement teams, and the work performed by less experienced engagement team members is directed, supervised, and reviewed by more experienced engagement team members.
EP QO-3	QM sec. 10, par. .32c	Engagement teams exercise appropriate professional judgment and, when applicable to the type of engagement, maintain professional skepticism.
EP QO-4	QM sec. 10, par. .32d	Consultation on difficult or contentious matters is undertaken and the conclusions agreed are implemented.
EP QO-5	QM sec. 10, par. .32e	Differences of opinion within the engagement team, or between the engagement team and the EQ reviewer or individuals performing activities within the firm's SOQM, are brought to the attention of the firm and resolved.
EP QO-6	QM sec. 10, par. .32f	Engagement documentation is assembled on a timely basis after the date of the engagement report and is appropriately maintained and retained to meet the needs of the firm and comply with law, regulation, relevant ethical requirements, or professional standards.

Table 2: Required Quality Objectives and Potential Quality Risks – Engagement Performance

QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk
EP QO-1	QM sec. 10, par. .32a	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.			
EP QO-1	EP QRi-1	Engagement teams do not 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.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRi-2	The engagement team does not follow the firm’s policies and procedures to ensure quality engagements are performed consistently and in conformity with professional standards.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRi-3	The engagement team does not review quality management materials (for example, an audit and accounting manual, standardized forms, checklists, templates, practice aids, tools, questionnaires, and the like) to determine that they are suitable and reliable for use on the specified engagement.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRi-4	The engagement team does not tailor quality management materials to each engagement or does not use the templates and practice aids that are appropriate for the engagement.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRi-5	The engagement team fails to identify industry- or regulatory-specific requirements that may not be addressed in third-party practice aids (for example, state regulatory requirements).	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRi-6	The engagement partner does not determine that engagement teams understand firm policies or know where to find them.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRi-7	The engagement partner is not sufficiently and appropriately involved throughout all phases of the engagement, including planning, staff assignments, timing of the engagement, and preliminary audit strategy.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRi-8	The engagement partner does not take responsibility for determining that staff members assigned to the engagement understand the relevant ethical requirements, including independence.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRi-9	Engagement team members do not sufficiently understand their responsibilities in connection with engagements, in accordance with professional standards, and how they should fulfill those responsibilities.	Choose an item.	Choose an item.	Choose an item.

QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk
EP QO-1	QM sec. 10, par. .32a	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.			
EP QO-1	EP QRi-10	The engagement team is not assigned based on competence and capabilities.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRi-11	Changes to the client's background information, including those obtained during client acceptance and continuance procedures, are not considered during planning procedures.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRi-12	Engagement quality reviewers are not sufficiently involved throughout the engagement.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRi-13	The need for a specialist or consultant is not identified during the planning phase.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRi-14	Engagement teams do not sufficiently document planning procedures.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRi-15	The roles and responsibilities of each individual on the engagement are not thoroughly and clearly communicated prior to commencing the engagement.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRi-16	The resource needs and nature of the engagement are not appropriately considered, both during the planning stage and when circumstances change during the performance of the engagement, leaving the engagements understaffed.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRi-17	Engagement team members, including engagement partners, do not have the appropriate experience, including industry considerations.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRi-18	Engagement teams are not aware of economic conditions that may affect their clients.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRi-19	The engagement partner does not actively participate in fraud brainstorming sessions.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRi-20	The budgets created for individual engagements are inappropriate based on the nature of the work to be performed.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
EP QO-1	QM sec. 10, par. .32a	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.			
EP QO-1	EP QRI-21	The staffing on each engagement is not commensurate with the budgeted hours.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRI-22	The engagement partner does not take ultimate responsibility for the engagement.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRI-23	New hires, merged practices, or engagement team members from other practice offices may have different understandings of the firm's policies and procedures, necessitating more thorough review and supervision by the engagement partner.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRI-24	The engagement partner does not appropriately manage deadlines or workload concentrations.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRI-25	Changes to strategy, planning materiality, or plan are not documented or approved by the engagement partner.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRI-26	The engagement partner fails to react to engagement scope expansion after the engagement letter was signed and staffing has been assigned.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRI-27	Engagement team members do not identify matters for consultation.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRI-28	The work done by a firm service delivery center, another network firm, or a component auditor, is not adequately directed, supervised, or reviewed.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRI-29	The documentation is not adequately reviewed to ensure the documentation provides a clear understanding of the work performed, the evidence obtained and its source, and the conclusions reached before the report is issued.	Choose an item.	Choose an item.	Choose an item.

QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk
EP QO-2	QM sec. 10, par. .32b	The nature, timing, and extent of direction and supervision of engagement teams and review of the work performed is appropriate based on the nature and circumstances of the engagements and the resources assigned or made available to the engagement teams, and the work performed by less experienced engagement team members is directed, supervised, and reviewed by more experienced engagement team members.			
EP QO-2	EP QRi-30	The nature, timing, and extent of direction and supervision of engagement teams and review of the work performed is not appropriate based on the nature and circumstances of the engagements and the resources assigned or made available to the engagement teams, and the work performed by less experienced engagement team members is not directed, supervised, and reviewed by more experienced engagement team members.	Choose an item.	Choose an item.	Choose an item.
EP QO-2	EP QRi-31	Team members, including component auditors and remote workers, are not adequately directed and supervised throughout the engagement.	Choose an item.	Choose an item.	Choose an item.
EP QO-2	EP QRi-32	All required checklists and work programs have not been completed, or the objectives of the work programs have not been achieved.	Choose an item.	Choose an item.	Choose an item.
EP QO-2	EP QRi-33	The work performed does not support the conclusions reached or is not properly documented.	Choose an item.	Choose an item.	Choose an item.
EP QO-2	EP QRi-34	Lack of interaction and communication with the client or between engagement team members adversely affects engagement quality.	Choose an item.	Choose an item.	Choose an item.
EP QO-2	EP QRi-35	Reports are issued before the work is complete and properly reviewed (that is, engagement quality [EQ] reviewer reviewed the file after report issuance; legal confirmations are received after the report is issued).	Choose an item.	Choose an item.	Choose an item.
EP QO-2	EP QRi-36	The firm does not have appropriate policies for identifying engagements that should have a pre-issuance review by a person that is not a member of the engagement team.	Choose an item.	Choose an item.	Choose an item.
EP QO-2	EP QRi-37	The firm uses personnel from a service delivery center to perform procedures on audit engagements that do not have a sufficient understanding of the applicable professional standards and the firm's policies and procedures.	Choose an item.	Choose an item.	Choose an item.
EP QO-2	EP QRi-38	The EQ review policy is poorly communicated to EQ reviewers.	Choose an item.	Choose an item.	Choose an item.
EP QO-2	EP QRi-39	The EQ review policy is inappropriate for the firm's practice.	Choose an item.	Choose an item.	Choose an item.

QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk
EP QO-2	QM sec. 10, par. .32b	The nature, timing, and extent of direction and supervision of engagement teams and review of the work performed is appropriate based on the nature and circumstances of the engagements and the resources assigned or made available to the engagement teams, and the work performed by less experienced engagement team members is directed, supervised, and reviewed by more experienced engagement team members.			
EP QO-2	EP QRi-40	The EQ review policy is not consistently applied.	Choose an item.	Choose an item.	Choose an item.
EP QO-2	EP QRi-41	Identification of risky clients during the acceptance and continuance process does not result in the assignment of an EQ reviewer to the engagement.	Choose an item.	Choose an item.	Choose an item.
EP QO-2	EP QRi-42	The engagement team does not follow the established criteria for EQ reviews, including the selection of the EQ reviewer.	Choose an item.	Choose an item.	Choose an item.
EP QO-2	EP QRi-43	The engagement partner does not take responsibility for the EQ review.	Choose an item.	Choose an item.	Choose an item.
EP QO-2	EP QRi-44	The EQ review fails to identify significant issues resulting in quality being compromised.	Choose an item.	Choose an item.	Choose an item.
EP QO-2	EP QRi-45	The engagement team does not have access to a qualified independent reviewer to perform EQ reviews.	Choose an item.	Choose an item.	Choose an item.
EP QO-2	EP QRi-46	The engagement team does not follow the policies and procedures addressing the performance and documentation requirements of the EQ review.	Choose an item.	Choose an item.	Choose an item.
EP QO-2	EP QRi-47	The engagement partner does not understand the responsibilities related to the EQ review.	Choose an item.	Choose an item.	Choose an item.
EP QO-2	EP QRi-48	EQ reviewers are not provided sufficient time to complete the EQ review.	Choose an item.	Choose an item.	Choose an item.
EP QO-2	EP QRi-49	An engagement report is issued despite unresolved questions by the EQ reviewer related to engagement team judgments and conclusions.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
EP QO-3	QM sec. 10, par. .32c	Engagement teams exercise appropriate professional judgment and, when applicable to the type of engagement, maintain professional skepticism.			
EP QO-3	EP QRI-50	Engagement teams do not exercise appropriate professional judgment and, when applicable to the type of engagement, do not maintain professional skepticism.	Choose an item.	Choose an item.	Choose an item.
EP QO-3	EP QRI-51	Overly heavy workloads or impending deadlines result in work being rushed, skepticism being set aside, and poor judgment being used.	Choose an item.	Choose an item.	Choose an item.
EP QO-3	EP QRI-52	Engagement teams are not trained on how to exercise professional judgment and professional skepticism on engagements.	Choose an item.	Choose an item.	Choose an item.
EP QO-3	EP QRI-53	Familiarity with the client and other unconscious auditor biases impede the engagement team's ability to exercise appropriate professional skepticism.	Choose an item.	Choose an item.	Choose an item.
EP QO-3	EP QRI-54	The engagement team forms incorrect or inappropriate conclusions based on client pressure or influence.	Choose an item.	Choose an item.	Choose an item.
EP QO-4	QM sec. 10, par. .32d	Consultation on difficult or contentious matters is undertaken and the conclusions agreed are implemented.			
EP QO-4	EP QRI-55	Consultation on difficult or contentious matters is not undertaken, or if it is, the conclusions agreed are not implemented.	Choose an item.	Choose an item.	Choose an item.
EP QO-4	EP QRI-56	The engagement team does not follow policies and procedures addressing when consultations should take place, how they are performed and documented, and conclusions implemented.	Choose an item.	Choose an item.	Choose an item.
EP QO-4	EP QRI-57	Leadership does not provide an environment that reinforces the importance and benefit of consultation and encourages engagement teams to consult.	Choose an item.	Choose an item.	Choose an item.
EP QO-4	EP QRI-58	Engagement teams do not undertake consultations on difficult or contentious matters because they do not recognize which matters (for example, areas involving high subjectivity or difficult-to-interpret accounting guidance) require consultation.	Choose an item.	Choose an item.	Choose an item.
EP QO-4	EP QRI-59	Engagement partners do not take responsibility for the engagement team identifying matters for consultation and undertaking consultation.	Choose an item.	Choose an item.	Choose an item.
EP QO-4	EP QRI-60	Engagement teams do not undertake consultations on difficult or contentious matters because they do not know what or with whom to consult.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
EP QO-4	QM sec. 10, par. .32d	Consultation on difficult or contentious matters is undertaken and the conclusions agreed are implemented.			
EP QO-4	EP QRI-61	Engagement teams do not undertake consultations on difficult or contentious matters because they are concerned with adverse consequences on performance evaluations.	Choose an item.	Choose an item.	Choose an item.
EP QO-4	EP QRI-62	Engagement teams do not appropriately evaluate new accounting standards.	Choose an item.	Choose an item.	Choose an item.
EP QO-4	EP QRI-63	Incomplete facts are presented for consultation on difficult or contentious matters causing incorrect conclusions.	Choose an item.	Choose an item.	Choose an item.
EP QO-4	EP QRI-64	Consultation conclusions are not implemented.	Choose an item.	Choose an item.	Choose an item.
EP QO-4	EP QRI-65	The results of consultations are unclear or inappropriate.	Choose an item.	Choose an item.	Choose an item.
EP QO-5	QM sec. 10, par. 32e	Differences of opinion within the engagement team, or between the engagement team and the engagement quality reviewer or individuals performing activities within the firm's system of quality management, are brought to the attention of the firm and resolved.			
EP QO-5	EP QRI-66	Differences of opinion by engagement team members reporting directly to the engagement partner are not adequately considered by the engagement partner.	Choose an item.	Choose an item.	Choose an item.
EP QO-5	EP QRI-67	Differences of opinion within the engagement team, or between the engagement team and the EQ reviewer or individuals performing activities within the firm's SOQMS, are not brought to the attention of the firm or if they are, they are not resolved.	Choose an item.	Choose an item.	Choose an item.
EP QO-5	EP QRI-68	Engagement team members do not follow or are not aware of the process to follow when a difference of opinion occurs.	Choose an item.	Choose an item.	Choose an item.
EP QO-5	EP QRI-69	Senior members of the engagement team, as well as the EQ reviewer and other members of the firm's quality management system, do not create an environment that encourages open discussion of competing viewpoints.	Choose an item.	Choose an item.	Choose an item.
EP QO-5	EP QRI-70	Resolution of differences of opinion are not properly evaluated and documented.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
EP QO-5	QM sec. 10, par. 32e	Differences of opinion within the engagement team, or between the engagement team and the engagement quality reviewer or individuals performing activities within the firm's system of quality management, are brought to the attention of the firm and resolved.			
EP QO-5	EP QRI-71	An engagement report is issued despite a difference of opinion being unresolved.	Choose an item.	Choose an item.	Choose an item.
EP QO-5	EP QRI-72	Significant engagement issues identified during EQ review or report review are not addressed before the report is issued.	Choose an item.	Choose an item.	Choose an item.
EP QO-6	QM sec. 10, par. .32f	Engagement documentation is assembled on a timely basis after the date of the engagement report, and is appropriately maintained and retained to meet the needs of the firm and comply with law, regulation, relevant ethical requirements, or professional standards.			
EP QO-6	EP QRI-73	Engagement documentation is not assembled on a timely basis after the date of the engagement report or is not appropriately maintained and retained to meet the needs of the firm and comply with law, regulation, relevant ethical requirements, or professional standards.	Choose an item.	Choose an item.	Choose an item.
EP QO-6	EP QRI-74	Engagement documentation is not assembled timely, either because firm policy is not clear and appropriate or because firm policy is not followed.	Choose an item.	Choose an item.	Choose an item.
EP QO-6	EP QRI-75	Engagement documentation is added or modified after the document completion date and such modifications are not authorized or documented.	Choose an item.	Choose an item.	Choose an item.
EP QO-6	EP QRI-76	Engagement documentation is not appropriately maintained and retained, either because firm policy is not clear and appropriate or because firm policy is not followed.	Choose an item.	Choose an item.	Choose an item.
EP QO-6	EP QRI-77	The engagement team does not appropriately perform the firm's document retention procedures; therefore, documentation is not appropriately maintained and retained.	Choose an item.	Choose an item.	Choose an item.

Table 3: Required and Suggested Quality Responses – Engagement Performance

QRe#	Quality Response	Note, Tip, or Warning
Engagement Performance		
EP QRe-1	Policy: The firm uses quality management materials (for example, an audit and accounting manual, standardized forms, checklists, templates, practice aids, tools, questionnaires, and the like) to assist with engagement performance.	
EP QRe-1.01	<p>The engagement partner establishes procedures to ensure that regardless of whether the firm develops its own quality management materials or obtains it from a third-party provider</p> <ul style="list-style-type: none"> • the material is reliable and suitable for the engagement. • the quality management materials are up to date. • modifications to the package and to individual forms are appropriate. • the forms being used are appropriate for the engagement. 	
	<ul style="list-style-type: none"> • industry or regulatory requirements are identified (for example, requirements specific to your client's state). 	TIP: Review your client's state regulatory website where you can find the requirements and example reports.
EP QRe-2	Policy: Planning for engagements meets professional, regulatory, and the firm's requirements.	
EP QRe-2.01	The firm provides personnel with the firm's practice aids that prescribe the factors the engagement team should consider in the planning process and the extent of documentation of those considerations.	
EP QRe-2.02	The firm trains personnel on the use of the firm's practice aids (audit and accounting manual, standardized forms, checklists, templates, practice aids, tools, questionnaires, and the like).	

QRe#	Quality Response	Note, Tip, or Warning
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Engagement Performance

EP QRe-2.03

Planning considerations may vary depending on the size and complexity of the engagement. The firm follows the following procedures for planning engagements:

- When the firm accepts an audit, review, or attestation examination in an industry in which the firm's personnel do not have recent experience, the firm requires all senior members of the engagement team to take industry-specific continuing professional education before planning procedures are performed.

- The engagement partner accepts responsibility for planning the engagement.

- Appropriate personnel are assigned responsibilities during the planning phase.
- The engagement partner, or personnel designated by the engagement partner, develops or updates background information on the client and the engagement.

- Planning includes determination of whether the engagement meets the firm's criteria for performing an EQ review. If so, the person performing the EQ review reviews the planning timely.

- If a specialist or consultant is used to provide the engagement team with the necessary competence, that person reviews the planning timely.

REMEMBER: Planning comes FIRST!

TIP: How recent depends upon changes in the industry and related accounting; not more than five years is a useful guideline, but it could be less, especially in regulated industries. Also, make sure that the engagement team is using the most recent AICPA Audit and Accounting Guide for that industry, when applicable.

WARNING: The higher the risk that the firm will fail to perform and report in conformity with applicable professional standards in an engagement, the more important it is that the engagement partner be more deeply involved in planning.

WARNING: QM section 20, *Engagement Quality Review*, requires that the EQ review take place at appropriate times during the engagement.

QRe#	Quality Response	Note, Tip, or Warning
Engagement Performance		
EP QRe-2.04	<p>The engagement team prepares planning documentation that includes the following:</p> <ul style="list-style-type: none"> • Proposed work programs tailored to the specific engagement • Staffing requirements • Whether there is a need for specialized knowledge and how that will be obtained (for example, from other practice offices or through consultation) • Consideration of the economic conditions affecting the client and its industry and their potential effect on the conduct of the engagement • Consideration of risks, including fraud considerations, affecting the client and the engagement and how they may affect the procedures to be performed • A budget that allocates sufficient time for the engagement to be performed in accordance with professional standards and the firm's quality management policies and procedures. • Approval of planning and of the proposed work program by the engagement partner before work to obtain engagement evidence begins 	<p>NOTE: Although planning is an iterative process, having the engagement partner approve planning before fieldwork begins results in a more effective, efficient, and higher quality engagement.</p>
EP QRe-3	<p>Policy: The engagement is performed, supervised, documented, and reported (or communicated) in accordance with the requirements of professional standards, applicable regulators, and the firm.</p>	
EP QRe-3.01	<p>Each engagement is assigned an engagement partner, who accepts ultimate responsibility for the engagement.</p>	
EP QRe-3.02	<p>A written work program is used in each engagement.</p>	

QRe#	Quality Response	Note, Tip, or Warning
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Engagement Performance

EP QRe-3.03	<p>Each engagement is required to be supervised by suitably experienced engagement team members. Engagement supervision includes the following: Briefing the engagement team on the objectives of their work</p> <ul style="list-style-type: none"> • Tracking the progress of the engagement • Considering the competence and capabilities of individual members of the engagement team, whether they have sufficient time to carry out their work, whether they understand their instructions, and whether the work is being carried out in accordance with the planned approach to the engagement • Addressing significant findings and issues arising during the engagement, considering their significance, and modifying the planned approach appropriately • Identifying matters for consultation or consideration by more experienced engagement team members during the engagement
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EP QRe-3.04	Engagement personnel prepare working papers that adhere to the firm's guidelines, applicable regulatory requirements, and professional standards for the form and content of documentation of the work performed and conclusions reached.
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NOTE: If you haven't documented what you have done, it's as if you didn't do it. Remember, the standard requires documentation for "an experienced reviewer with no connection to the engagement" — someone with no access to anything except what is in the working papers. Therefore, the working papers need sufficient detail for the reviewer to understand exactly what was done.

EP QRe-3.05	Engagement documentation makes clear when and by whom engagement documentation was prepared and reviewed.
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EP QRe-4	Policy: Qualified engagement team members review work performed by other team members on a timely basis.
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EP QRe-4.01	The firm's methodology prescribes who on the engagement team reviews the work of other members of the engagement team.
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NOTE: This can include the extent of the engagement partner's review.

EP QRe-4.02	For each engagement, there is evidence of appropriate review of documentation of the work performed, conclusions reached, the financial statements, and the report.
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QRe#	Quality Response	Note, Tip, or Warning
Engagement Performance		
EP QRe-4.03	The firm prescribes the extent of review of the nature, timing, and extent of procedures performed to have reasonable assurance that they are consistent with the approach described in the planning documentation. Exceptions are investigated and resolved.	WARNING: The financial statements can be materially correct, the report can be appropriate in the circumstances, and yet, the engagement may not be in compliance with professional standards because, for example, the engagement team did not obtain sufficient appropriate engagement evidence or the documentation does not reflect all the procedures performed and evidence obtained.
EP QRe-4.04	<p>Engagement documentation is reviewed to determine whether the following have occurred:</p> <ul style="list-style-type: none"> • The work has been performed in accordance with professional standards and applicable legal and regulatory requirements. • Significant findings and issues have been raised for further consideration. • Appropriate consultations have taken place and the resulting conclusions have been documented and implemented. • The nature, timing, and extent of the work performed is appropriate and without need for revision. • The work performed supports the conclusions reached and is appropriately documented. • The evidence obtained is sufficient and appropriate to support the report. • The objectives of the engagement procedures have been achieved. 	WARNING: The review of engagement documentation to determine that the work has been performed in accordance with professional standards is not the same as the review to determine that the report issued by the firm is appropriate in the circumstances. Reviewing engagement documentation entails reviewing the working papers for documentation of sufficient appropriate engagement evidence.
EP QRe-5	Policy: Engagements as specified in the firm's methodology are reviewed by a person who is not a member of the engagement team before the reports or other communications are issued.	NOTE: Pre-issuance reviews by a person who is not a member of the engagement team may be less extensive than an EQ review.

QRe#	Quality Response	Note, Tip, or Warning
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Engagement Performance

EP QRe-5.01	<p>The firm's methodology specifies which engagements require pre-issuance review by a person who is not a member of the engagement team and prescribes the extent of the pre-issuance review of the report and other communication, financial statements, and selected documentation of the work performed, and conclusions reached. This includes</p> <ul style="list-style-type: none"> • assigning a reviewer with the appropriate qualifications, and • prescribing the documentation that the reviewer must review for each level of service and permitting the reviewer to select additional documentation to review. 	<p>TIP: A pre-issuance review by a person who is not a member of the engagement team, although only required by the standard for engagements meeting the firm's criteria for an EQ review, provides a fresh look and is very helpful. The firm can prescribe procedures for different levels of services that are less extensive than those required for EQ review.</p>
EP QRe-6	<p>Policy: Firm leaders set a tone that addresses the importance and understanding of exercising professional judgment and professional skepticism.</p>	
EP QRe-6.01	<p>The engagement partner takes responsibility for ensuring engagement team members understand the importance and practice professional judgment and professional skepticism.</p>	
EP QRe-6.02	<p>When performing engagements, the engagement team practices professional skepticism in discussions and when reviewing client materials.</p>	
EP QRe-7	<p>Policy: The firm establishes, documents, and follows procedures when the firm uses external personnel, such as from other firms, for audit or accounting engagements.</p>	
EP QRe-7.01	<p>Those procedures address the following:</p> <ul style="list-style-type: none"> • The form in which instructions are given to external personnel • The extent to which their work is reviewed 	<p>TIP: For example, when external personnel are used to observe inventory, when using independent contractors as part of the engagement team, or when assuming responsibility for the work of component auditors</p>

QRe#	Quality Response	Note, Tip, or Warning
Engagement Performance		
EP QRe-8	Policy: The firm has criteria for determining whether an EQ review should be performed, evaluates all engagements against the criteria, performs an EQ review for all engagements that meet the criteria, and completes the review before the report is released.	<p>NOTE: This is a required response. [QM sec. 10, par. .35f and QM sec. 20 par. .24b]</p> <p>TIP: If your acceptance and continuance policies and procedures limit engagement risk, the need for an EQ review may be diminished.</p> <p>WARNING: Criteria that are not responsive to the structure and nature of the firm's practice are not appropriate.</p>
EP QRe-8.01	The firm's criteria for requiring that an EQ review be performed are based on the firm's assessment of which engagements would most benefit from an independent review, taking into account the structure and nature of the firm's practice.	<p>WARNING: When setting criteria for an EQ review, it is critical that the firm carefully consider which engagements have the highest risk of NOT being performed in accordance with the standards or that the report will NOT be appropriate in the circumstances. Consider the engagements that the firm performs in setting the criteria and not only engagements that are clearly outside the firm's expertise. Recognize that risk factors to the firm change over time and the firm's criteria for an EQ review may need to change accordingly.</p>

QRe#	Quality Response	Note, Tip, or Warning
Engagement Performance		
Ep QRe-8.02	<p>The firm's criteria include the following: <i>[specify criteria, which could include the following]</i>:</p> <ul style="list-style-type: none"> • The identification of unusual circumstances or risks in an engagement or class of engagements as pre-determined by the firm, for example <ul style="list-style-type: none"> – audits in which a going concern issue was identified but the report was not modified, – a compilation with disclosures when the firm has only been doing compilations without disclosures, or – a review (or other engagement) for an entity with issues that the firm rarely encounters (for example, joint ventures) • An EQ review is required by law or regulation. • An engagement for which the undue influence threat may exist (for example, an engagement that represents over 10% of the firm's audit and accounting practice) • A <i>high-risk engagement</i>, as defined by the firm, using the same criteria used for acceptance and continuance • An engagement in an industry in which the firm's practice is limited, and the firm's personnel have little or no experience • An engagement for which the familiarity threat may exist • An engagement for an entity operating in a highly specialized or regulated industry, including financial institutions, employee benefit plans, and audits in accordance with government auditing standards 	<p>WARNING: Appropriate criteria for most firms will consist of a mix of the following and not rely on just one criterion.</p> <p>WARNING: The engagement partner or quality management partner can always request an EQ review, but having your firm's only criterion for performing an EQ review be "the engagement partner or the quality management partner have identified unusual circumstances or risks in an engagement" is not appropriate. This criterion is too subjective to be responsive to the structure and nature of the firm's practice. Likewise, the client's revenue volume or total assets as the sole criterion is not appropriate because these are not, in and of themselves, indicators of the risk of the engagement.</p> <p>NOTE: The criterion that an EQ review is required by law or regulation is a required response. [QM sec. 10, par. .35f(i)]</p>
EP QRe-8.03	The firm evaluates all engagements against the criteria and performs an EQ review for all engagements that meet the criteria.	
EP QRe-9	Policy: EQ reviewers meet the firm's criteria for eligibility.	TIP: The AICPA's list of peer reviewers and your state society are resources for finding an EQ reviewer.
EP QRe-9.01	Selection of the EQ reviewer is not made by the engagement partner.	

QRe#	Quality Response	Note, Tip, or Warning
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Engagement Performance

EP QRe-9.02	<p>The EQ reviewer meets the following criteria:</p> <ul style="list-style-type: none"> • Has sufficient technical expertise and experience. • Carries out responsibilities with objectivity and due professional care without regard to the relative positions of the audit engagement partner and the EQ reviewer. If the reviewer's objectivity becomes impaired, the reviewer must be replaced. • Does not make decisions for the engagement team or participate in the performance of the engagement, except to serve as a consultant to the engagement partner at any stage during the engagement, with the understanding that the EQ reviewer's objectivity may be impaired if the nature and extent of consultations becomes significant. • Does not assume any of the responsibilities of the engagement partner or have responsibility for the audit of any significant subsidiaries, divisions, benefit plans, or affiliated or related entities. • Meets the independence requirements relating to the engagements reviewed, even though the EQ reviewer is not a member of the engagement team.
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EP QRe-9.03	When the firm does not have suitably qualified personnel to perform the EQ review, the firm engages a suitably qualified external person to perform the engagement quality review.
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EP QRe-10	Policy: The firm establishes procedures addressing the nature, timing, extent, and documentation of the EQ review.
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EP QRe-10.01	<p>Regarding the EQ review, the engagement partner understands and performs the following:</p> <ul style="list-style-type: none"> • The engagement partner remains responsible for the engagement and its performance, and the EQ reviewer does not make decisions for the engagement team. • The engagement partner may consult the EQ reviewer at any stage during the engagement, with the understanding that the EQ reviewer's objectivity may be impaired if the nature and extent of consultations becomes significant.
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QRe#	Quality Response	Note, Tip, or Warning
Engagement Performance		
EP QRe-10.02	<p>For engagements for which the firm’s EQ review criteria stipulate that an EQ review is required, the engagement partner</p> <ul style="list-style-type: none"> • determines that an EQ reviewer has been appointed, • discusses with the EQ reviewer the significant findings or issues that arose during the engagement, if any, and • does not release the report until the completion of the EQ review. 	<p>TIP: The EQ review is completed when the EQ reviewer decides it is completed.</p>
EP QRe-10.03	<p>Timing of the EQ review: Performing an EQ review is not necessary to obtain sufficient appropriate audit evidence for audit engagements; therefore, the EQ review does not need to be completed before the date of the auditor’s report. When the EQ review results in additional audit procedures being performed, the date of the auditor’s report is changed to the date by which sufficient appropriate audit evidence has been obtained.</p>	<p>WARNING: Although permitted by the standard, completing the EQ review after dating the report is far from optimal, and the time between dating the report and then completing the EQ review is expected to be minimal.</p>

QRe#	Quality Response	Note, Tip, or Warning
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Engagement Performance

EP QRe-10.04

The firm's procedures require that for audit and examination engagements, the EQ reviewer does the following, at appropriate points during the engagement:

- Discuss significant accounting, auditing, and financial reporting issues with the engagement partner, including matters for which there has been consultation
- Discuss with the engagement partner the engagement team's identification and audit of high-risk assertions, transactions, and account balances
- Confirm with the engagement partner that there are no significant unresolved issues
- Review selected working papers relating to the significant judgments the engagement team made and the conclusions they reached
- Review documentation of the resolution of significant accounting, auditing, or financial reporting issues, including documentation of consultation with firm personnel or external sources
- Review the summary of uncorrected misstatements related to known and likely misstatements
- Review additional engagement documentation to the extent considered necessary
- Read the financial statements and the report and consider whether the report is appropriate
- Complete the review before the release of the report
- Determine whether the issues raised in the review require additional procedures that necessitate changing the auditor's report date

NOTE: QM section 20, *Engagement Quality Reviews*, addresses the appointment and eligibility of the EQ reviewer and the EQ reviewer's responsibilities relating to the performance and documentation of an EQ review. QM section 20 requires that the EQ review be conducted at appropriate points during the engagement, which has the advantage of reducing the time pressure for resolving issues that the EQ reviewer identifies.

EP QRe-10.04

Before reports are released, matters that would cause the reviewer to question the engagement team's judgments and conclusions are resolved and the resolution is documented.

QRe#	Quality Response	Note, Tip, or Warning
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Engagement Performance

EP QRe-10.05	<p>The EQ review is documented. Documentation includes the following:</p> <ul style="list-style-type: none"> • The procedures required by the firm's policies on EQ review have been performed. • The EQ review has been completed before the report is released. • An assertion that the reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions it reached were not appropriate.
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EP QRe-11	<p>Policy: The firm requires that consultation take place when appropriate; that sufficient and appropriate resources are available to enable appropriate consultation to take place; that all the relevant facts known to the engagement team are provided to those consulted; that the nature, scope, and conclusions of such consultations are documented; and that conclusions resulting from such consultations are implemented.</p>
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EP QRe-11.01	The firm informs personnel of its consultation policies and procedures.
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EP QRe-11.02	<p>The firm identifies circumstances, including specialized situations, in which firm personnel are expected to consult. Those circumstances include the following [<i>specify the criteria, such as the following</i>]:</p> <ul style="list-style-type: none"> • Application of newly issued technical pronouncements • Industries with special accounting, auditing, or reporting requirements • Emerging practice problems • Choices among alternative generally accepted accounting principles upon initial adoption or when an accounting change is made • Reissuance of a report, consideration of omitted procedures after a report has been issued, or subsequent discovery of facts that existed at the time a report was issued • Identification of suspected fraud or illegal acts • Filing requirements of regulatory agencies
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EP QRe-11.03	The firm requires sufficiently experienced engagement team members to identify matters for consultation or consideration during the engagement.
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QRe#	Quality Response	Note, Tip, or Warning
Engagement Performance		
EP QRe-11.04	<p>The firm has established criteria that require consultation with outside parties, such as other firms, the AICPA Technical Hotline (877.242.7212), the AICPA Audit Quality Center, the AICPA Center for Plain English Accounting, other professional and regulatory bodies, and commercial organizations that provide relevant quality management services. Before using such services, the firm evaluates whether the external provider is qualified for that purpose.</p>	
EP QRe-11.05	<p>The firm designates individuals within and outside the firm as consultants in certain areas. Such individuals have appropriate knowledge, authority, and experience. A list is maintained of the individuals within and outside the firm that the firm has designated as consultants, along with the areas where they are responsible for consulting.</p>	
EP QRe-11.06	<p>The firm requires the engagement partner to determine the need to consult. That determination is based on the following:</p> <ul style="list-style-type: none"> • The materiality of the matter • The experience of senior engagement personnel in a particular industry or functional area • Whether the financial reporting framework or professional standards applicable to the engagement are as follows: <ul style="list-style-type: none"> • Based on authoritative pronouncements that are subject to varying interpretations • Based on varied interpretations of prevailing practice • Under active consideration by an authoritative body 	<p>WARNING: Don't hesitate to consult; those who only ask when they are unable to draw their own conclusion may not know whether they have come to the correct conclusion.</p>

QRe#	Quality Response	Note, Tip, or Warning
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Engagement Performance

EP
QRe-11.07

The firm maintains and provides its personnel with access to adequate and current reference materials, including materials relevant to its clients. Those materials include the most current versions of the following:

- AICPA *Professional Standards*
- AICPA Audit and Accounting Guides relevant to all industries in which the firm practices
- FASB pronouncements
- Any other pronouncements relevant to the firm's practice (for example, SEC pronouncements, GASB pronouncements, *Government Auditing Standards* [Yellow Book], and other government audit guides relevant to the firm's practice)

TIP: The U.S. Government Accountability Office's Yellow Book Technical Assistance can be reached at 202.512.9535 or yellowbook@gao.gov.

EP
QRe-11.08

Those consulted are provided with all relevant facts that will enable them to provide informed advice.

EP
QRe-11.09

The firm resolves differences of opinion between engagement personnel and specialists before report issuance.

EP
QRe-11.10

The firm requires documentation of consultations. That required documentation includes the following:

- All relevant facts and circumstances
- References to professional literature used in the determination
- Conclusions reached and how they were implemented
- Signatures of engagement partner and consultant
- Reference to the engagement working papers

EP
QRe-12

Policy: The firm addresses and resolves differences of opinion within the engagement team; with those consulted; and, when applicable, between the engagement partner and the EQ reviewer.

EP
QRe-12.01

The firm follows procedures for consultation in resolving differences within an engagement team. If further action is necessary, the engagement partner, the quality management partner, and the firm's leadership, if necessary, resolve the differences.

QRe#	Quality Response	Note, Tip, or Warning
Engagement Performance		
EP QRe-12.02	The conclusion reached to resolve the matter of disagreement and how that conclusion was implemented are documented.	
EP QRe-12.03	The firm not release the report until any differences of opinion are resolved.	
EP QRe-12.04	Any party to the consultation or difference of opinion, or both, who disagrees with the conclusion may document the disagreement with, and disassociate themselves from, the resolution of the matter.	NOTE: Resolution does not require consensus. Although consensus is optimal, ultimately, the managing partner is responsible for determining the resolution.
EP QRe-13	Policy: Engagement teams complete the assembly of final engagement files on a timely basis.	TIP: Assembling the final files sooner rather than later is best practice.
EP QRe-13.01	Final engagement files are assembled by the earlier of time limits required by professional standards and applicable regulatory requirements, if any, or 60 days from the report release date.	TIP: Because deadlines have power, it is helpful for the firm to specify a time limit for all engagements in the absence of time limits required by professional standards or regulatory requirements.
EP QRe-14	Policy: The firm maintains the confidentiality, safe custody, integrity, accessibility, and retrievability of engagement documentation.	
EP QRe-14.01	The firm implements adequate and appropriate controls over the confidentiality, custody, integrity, accessibility, and retrievability of the firm's engagement documentation.	NOTE: The firm may be subject to law or regulation around confidentiality, such as the General Data Protection Act or California Consumer Act.

QRe#	Quality Response	Note, Tip, or Warning
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Engagement Performance

EP QRe-14.02

Adequate and appropriate controls over confidentiality, custody, integrity, accessibility, and retrievability of engagement documentation include the following:

- Requiring that engagement documentation clearly indicates when and by whom it was prepared and reviewed.
- Procedures to protect the integrity of the information at all stages of the engagement, including preventing unauthorized changes to the engagement documentation. For electronic engagement documentation, this includes
 - using passwords or data encryption, or both, to restrict access to authorized users, and
 - using appropriate back-up routines at appropriate stages during the engagement.
- Procedures for tracking the distribution of engagement documentation materials to personnel at the start of the engagement, preparing engagement documentation during the engagement, and assembling final documentation at the end of the engagement.
- Procedures to allow access to hard copy engagement documentation for authorized users, including the engagement team and other authorized users, such as inspectors, and restrict access by others.
- Maintaining engagement documentation in one location to enhance retrievability (this applies to both hard copy and electronic documentation, although back-up files would be maintained elsewhere).
- Implementing procedures regarding original paper documents that have been electronically scanned or otherwise copied to another media that accomplish the following:
 - Generate copies that contain the entire content of the original paper documentation, including manual signatures, cross-references, and annotations
 - Integrate the copies into the engagement files, including indexing and signing off on the copies as necessary

NOTE: Based on the size of the firm and the formality of your documentation, you may decide this level of detail is not necessary in your quality management materials.

QRe#	Quality Response	Note, Tip, or Warning
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Engagement Performance

**EP
QRe-15** **Policy: The firm retains engagement documentation for a period of time sufficient to meet the needs of the firm, professional standards, laws, and regulations.**

**EP
QRe-15.01** The quality management partner maintains a list specifying the period of time sufficient to meet the needs of the firm, the requirements of the state board of accountancy, and applicable professional standards for each level of engagement service.

TIP: Your firm's professional liability insurance carrier can be a resource in determining appropriate time limits.

**EP
QRe-15.02** Engagement documentation is retained for the specified period of time.

Table 4: Example of Evaluated Quality Risks and Linked Responses – Engagement Performance

The following table provides examples of evaluated quality risks and linked responses to each quality risk. Please note that this is for illustrative purposes only. Your firm may identify other risks, may evaluate the likelihood and impact of those risks differently, and may choose other responses. The examples are not complete; if all you do is copy and paste these examples, your SOQM will not provide reasonable assurance of achieving its objectives.

The following examples illustrate the documentation of establishing quality objectives, evaluating quality risks, and designing the firm's responses to those quality risks. This is not a complete picture of an established SOQM. The implementation, evaluation, and monitoring of the system will need to be documented and established, as well.

Engagement Performance							
EP Q0-1		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.					
QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk	Quality Response	QRe#
EP Q0-1	EP QRi-4	The engagement team does not tailor quality management materials to each engagement or does not use the templates and practice aids that are appropriate for the engagement.	Low	High	Yes	The engagement partner establishes procedures to ensure that regardless of whether the firm develops its own quality management materials or obtains it from a third-party provider <ul style="list-style-type: none"> the material is reliable and suitable for the engagement. the quality management materials are up to date. modifications to the package and to individual forms are appropriate. the forms being used are appropriate for the engagement. industry or regulatory requirements are identified (for example, requirements specific to your client's state). 	EP QRe-1.01

QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk	Quality Response	QRe#
EP QO-2	The nature, timing, and extent of direction and supervision of engagement teams and review of the work performed is appropriate based on the nature and circumstances of the engagements and the resources assigned or made available to the engagement teams, and the work performed by less experienced engagement team members is directed, supervised, and reviewed by more experienced engagement team members.						
EP QO-2	EP QRi-31	Team members, including component auditors and remote workers, are not adequately directed and supervised throughout the engagement.	Low	High	Yes	For each engagement, there is evidence of appropriate review of documentation of the work performed, conclusions reached, the financial statements, and the report.	EP QRe-4.02
EP QO-4	Consultation on difficult or contentious matters is undertaken and the conclusions agreed are implemented.						
EP QO-4	EP QRi-58	Engagement teams do not undertake consultations on difficult or contentious matters because they do not recognize which matters (for example, areas involving high subjectivity or difficult-to-interpret accounting guidance) require consultation.	High	Medium	Yes	<p>The firm identifies circumstances, including specialized situations, when firm personnel are expected to consult. Those circumstances include the following <i>[specify the criteria, such as the following]</i>:</p> <ul style="list-style-type: none"> • Application of newly issued technical pronouncements • Industries with special accounting, auditing, or reporting requirements • Emerging practice problems • Choices among alternative generally accepted accounting principles upon initial adoption or when an accounting change is made • Reissuance of a report, consideration of omitted procedures after a report has been issued, or subsequent discovery of facts that existed at the time a report was issued • Identification of suspected fraud or illegal acts • Filing requirements of regulatory agencies 	EP QRe-11.02

Resources

Table 1: Required Quality Objectives – Resources

QO #	Ref:	Quality Objectives
RES QO-1	QM sec. 10, par. .33a	Personnel are hired, developed, and retained and have the competence and capabilities to <ul style="list-style-type: none"> i. consistently perform quality engagements, including having knowledge or experience relevant to the engagements the firm performs, or ii. perform activities or carry out responsibilities in relation to the operation of the firm’s systems of quality management.
RES QO-2	QM sec. 10, par. .33b	Personnel demonstrate a commitment to quality through their actions and behaviors, develop and maintain the appropriate competence to perform their roles, and are held accountable or recognized through timely evaluations, compensation, promotion, and other incentives.
RES QO-3	QM sec. 10, par. .33c	Individuals are obtained from external sources (that is, the network, another network firm, or a service provider) when the firm does not have sufficient or appropriate personnel to enable the operation of the firm’s SOQM or performance of engagements.
RES QO-4	QM sec. 10, par. .33d	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.
RES QO-5	QM sec. 10, par. .33e	Individuals who have appropriate competence and capabilities, including sufficient time, are assigned to perform activities within the SOQM.
RES QO-6	QM sec. 10, par. .33f	Appropriate technological resources are obtained or developed, implemented, maintained, and used to enable the operation of the firm’s SOQM and the performance of engagements.
RES QO-7	QM sec. 10, par. .33g	Appropriate intellectual resources are obtained or developed, implemented, maintained, and used to enable the operation of the firm’s SOQM and the consistent performance of quality engagements, and such intellectual resources are consistent with professional standards and applicable legal and regulatory requirements, where applicable.
RES QO-8	QM sec. 10, par. .33h	Human, technological, or intellectual resources from service providers are appropriate for use in the firm’s SOQM and in the performance of engagements, taking into account preceding quality objectives RES QO-4 through RES QO-7.

Table 2: Required Quality Objectives and Potential Quality Risks – Resources

QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk
RES QO-1	QM sec. 10, par. .33a	Personnel are hired, developed, and retained and have the competence and capabilities to <ul style="list-style-type: none"> i. consistently perform quality engagements, including having knowledge or experience relevant to the engagements the firm performs, or ii. perform activities or carry out responsibilities in relation to the operation of the firm’s system of quality management. 			
Human Resources					
RES QO-1	RES QRi-1	Personnel, including partners, do not have, or cannot gain, the competence and capabilities to consistently perform quality engagements, which includes not only technical competence but professional ethics, values, and attitudes.	Choose an item.	Choose an item.	Choose an item.
RES QO-1	RES QRi-2	Personnel, including partners, do not have the competence and capabilities to perform activities or carry out responsibilities in relation to the operation of the firm’s SOQM.	Choose an item.	Choose an item.	Choose an item.
RES QO-1	RES QRi-3	The firm does not have sufficient personnel or personnel with the appropriate competence and capabilities to perform the engagements it has accepted.	Choose an item.	Choose an item.	Choose an item.
RES QO-1	RES QRi-4	The firm does not adequately develop personnel that are hired and retained.	Choose an item.	Choose an item.	Choose an item.
RES QO-1	RES QRi-5	The firm does not have sufficient resources to recruit quality candidates.	Choose an item.	Choose an item.	Choose an item.
RES QO-1	RES QRi-6	The firm experiences high turnover.	Choose an item.	Choose an item.	Choose an item.
RES QO-1	RES QRi-7	Personnel, including partners, do not consistently perform quality engagements.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
EP QO-2	QM sec. 10, par. .33b	Personnel demonstrate a commitment to quality through their actions and behaviors, develop and maintain the appropriate competence to perform their roles, and are held accountable or recognized through timely evaluations, compensation, promotion, and other incentives.			
Human Resources					
RES QO-2	RES QRI-8	Personnel do not demonstrate a commitment to quality through their actions and behaviors; do not develop or do not maintain the appropriate competence to perform their roles; and are not held accountable or recognized through timely evaluations, compensation, promotion, and other incentives.	Choose an item.	Choose an item.	Choose an item.
RES QO-2	RES QRI-9	The capabilities and competencies possessed by personnel, including partners, do not support the firm’s quality objectives.	Choose an item.	Choose an item.	Choose an item.
RES QO-2	RES QRI-10	Personnel, including partners, do not demonstrate a commitment to quality.	Choose an item.	Choose an item.	Choose an item.
RES QO-2	RES QRI-11	Personnel, including partners, are not aware of their developmental needs to enable them to meet the firm’s quality objectives.	Choose an item.	Choose an item.	Choose an item.
RES QO-2	RES QRI-12	The firm does not provide opportunities for personnel to participate in professional development activities that enable them to accomplish their assigned responsibilities.	Choose an item.	Choose an item.	Choose an item.
RES QO-2	RES QRI-13	Learning and development programs are not delivered in a frequency, length, or format that ensures participant engagement and advancement of learning objectives.	Choose an item.	Choose an item.	Choose an item.
RES QO-2	RES QRI-14	The firm does not encourage professional development (for example, passing the CPA exam).	Choose an item.	Choose an item.	Choose an item.
RES QO-2	RES QRI-15	Newly hired per-diem personnel are not aware of firm policies and procedures.	Choose an item.	Choose an item.	Choose an item.
RES QO-2	RES QRI-16	Personnel, including partners, are not aware of their responsibilities and professional development opportunities.	Choose an item.	Choose an item.	Choose an item.
RES QO-2	RES QRI-17	Training programs are insufficiently focused on meeting the development needs of personnel, including competence in technical and specialized (“soft”) skills.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
EP QO-2	QM sec. 10, par. .33b	Personnel demonstrate a commitment to quality through their actions and behaviors, develop and maintain the appropriate competence to perform their roles, and are held accountable or recognized through timely evaluations, compensation, promotion, and other incentives.			
Human Resources					
RES QO-2	RES QRI-18	The partner in charge of an engagement in a specialized industry does not have sufficient current knowledge to perform quality engagements in that specialized industry.	Choose an item.	Choose an item.	Choose an item.
RES QO-2	RES QRI-19	Personnel do not have the appropriate continuing professional education (CPE) required by law, regulation, or professional standards (which require competency) for the work they perform (for example, <i>Government Auditing Standards</i> requirements, AICPA Employee Benefit Plan Audit Quality Center requirements, and so on).	Choose an item.	Choose an item.	Choose an item.
RES QO-2	RES QRI-20	Personnel, including partners, are not aware of changes in applicable professional standards, regulations, or firm policy.	Choose an item.	Choose an item.	Choose an item.
RES QO-2	RES QRI-21	Personnel, including partners, selected for advancement do not have the qualifications to fulfill the responsibilities they will be called on to assume.	Choose an item.	Choose an item.	Choose an item.
RES QO-2	RES QRI-22	Leadership does not designate a person responsible for identifying and communicating the qualifications necessary to accomplish professional responsibilities at each professional level within the firm.	Choose an item.	Choose an item.	Choose an item.
RES QO-2	RES QRI-23	Personnel, including partners, are not properly incentivized to maintain a high degree of quality in their engagements or in the performance of the SOQM.	Choose an item.	Choose an item.	Choose an item.
RES QO-2	RES QRI-24	The firm’s compensation, recognition, and promotion mechanisms are ineffective in recognizing and rewarding competency (and, by association, quality), at any level.	Choose an item.	Choose an item.	Choose an item.
RES QO-2	RES QRI-25	The firm does not have established criteria for advancement to the next level of responsibility.	Choose an item.	Choose an item.	Choose an item.
RES QO-2	RES QRI-26	The firm does not hold personnel accountable for actions or behaviors that negatively affect quality, such as failing to demonstrate a commitment to quality, develop and maintain the competence to perform their role, or implement the firm’s responses as designed.	Choose an item.	Choose an item.	Choose an item.

QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk
EP QO-2	QM sec. 10, par. .33b	Personnel demonstrate a commitment to quality through their actions and behaviors, develop and maintain the appropriate competence to perform their roles, and are held accountable or recognized through timely evaluations, compensation, promotion, and other incentives.			

Human Resources

RES QO-2	RES QRi-27	Quality objectives and per-diem personnel's commitment to quality are not a component of advancement and compensation determinations.	Choose an item.	Choose an item.	Choose an item.
RES QO-2	RES QRi-28	Evaluations are not undertaken at appropriate intervals and do not include competency areas and other performance measures.	Choose an item.	Choose an item.	Choose an item.
RES QO-2	RES QRi-29	Positive actions or behaviors demonstrated by per-diem personnel are not adequately or consistently recognized (such as through compensation, promotion, other incentives, or, as appropriate, simple or informal incentives that are not based on monetary rewards).	Choose an item.	Choose an item.	Choose an item.
RES QO-3	QM sec. 10, par. .33c	Individuals are obtained from external sources (that is, the network, another network firm, or a service provider) when the firm does not have sufficient or appropriate personnel to enable the operation of the firm's system of quality management or performance of engagements.			

Human Resources

RES QO-3	RES QRi-30	Individuals are not obtained from external sources (that is, the network, another network firm, or a service provider) when the firm does not have sufficient or appropriate personnel to enable the operation of the firm's SOQM or performance of engagements.	Choose an item.	Choose an item.	Choose an item.
RES QO-3	RES QRi-31	The firm relies on an external workforce, network firm, or component auditor that does not perform the engagement or a portion of the engagement in accordance with applicable standards.	Choose an item.	Choose an item.	Choose an item.
RES QO-3	RES QRi-32	Alternate work forces, network resources, component auditors, and other third-party resources, are not properly evaluated for competence and capabilities or trained in the performance of engagements, prior to utilization.	Choose an item.	Choose an item.	Choose an item.
RES QO-3	RES QRi-33	The firm lacks an appropriate network or third-party providers to enable the operation of the firm's SOQM or performance of engagements.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
RES QO-3	QM sec. 10, par. .33c	Individuals are obtained from external sources (that is, the network, another network firm, or a service provider) when the firm does not have sufficient or appropriate personnel to enable the operation of the firm's system of quality management or performance of engagements.			

Human Resources

RES QO-3	RES QRI-34	The firm lacks internal expertise to perform adequate monitoring of the firm's SOQM.	Choose an item.	Choose an item.	Choose an item.
RES QO-3	RES QRI-35	The firm is not able to timely identify the need for network or third-party providers to enable the operation of the firm's SOQM or performance of engagements.	Choose an item.	Choose an item.	Choose an item.
RES QO-3	RES QRI-36	The firm is not able to timely evaluate the appropriateness of network or third-party providers to enable the operation of the firm's SOQM or performance of engagements.	Choose an item.	Choose an item.	Choose an item.
RES QO-4	QM sec. 10, par. .33d	Engagement team members, including an engagement partner, who have appropriate competence and capabilities to consistently perform quality engagements, including being given sufficient time, are assigned to each engagement.			

Human Resources

RES QO-4	RES QRI-37	Engagement team members, including an engagement partner, are assigned to engagements when they do not have appropriate competence and capabilities to consistently perform quality engagements, including being given sufficient time.	Choose an item.	Choose an item.	Choose an item.
RES QO-4	RES QRI-38	Engagement teams are not afforded sufficient time or there are insufficient staffing levels to consistently perform quality audit engagements.	Choose an item.	Choose an item.	Choose an item.
RES QO-4	RES QRI-39	Leadership is not aware of which partner is responsible for certain engagements, which causes a high-risk industry engagement to be inadequately performed.	Choose an item.	Choose an item.	Choose an item.
RES QO-4	RES QRI-40	The engagement partner does not fulfill all required responsibilities.	Choose an item.	Choose an item.	Choose an item.
RES QO-4	RES QRI-41	Engagement team members, including the engagement partner, suffer "impairment" due to physical or mental considerations (fatigue, burnout, distractions, not taking paid time off, unreasonable workload compression, insufficient succession planning, and so on) such that they are unable to effectively perform relevant responsibilities.	Choose an item.	Choose an item.	Choose an item.

QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk
RES QO-4	QM sec. 10, par. .33d	Engagement team members, including an engagement partner, who have appropriate competence and capabilities to consistently perform quality engagements, including being given sufficient time, are assigned to each engagement.			
Human Resources					
RES QO-4	RES QRi-42	The engagement partner perpetuates errors on engagements that cause nonconformity with the applicable professional standards.	Choose an item.	Choose an item.	Choose an item.
RES QO-4	RES QRi-43	Engagement team members, including the engagement partner, do not collectively have appropriate competence and capabilities in the circumstances of the particular engagement.	Choose an item.	Choose an item.	Choose an item.
RES QO-4	RES QRi-44	Engagement team members are not properly supervised, including in a remote working environment.	Choose an item.	Choose an item.	Choose an item.
RES QO-5	QM sec. 10, par. .33e	Individuals who have appropriate competence and capabilities, including sufficient time, to perform such activities are assigned to perform activities within the system of quality management.			
Human Resources					
RES QO-5	RES QRi-45	Individuals who do not have appropriate competence and capabilities, including sufficient time, are assigned to perform activities within the SOQM.	Choose an item.	Choose an item.	Choose an item.
RES QO-5	RES QRi-46	Insufficient resources are allocated to developing and maintaining an effective SOQM.	Choose an item.	Choose an item.	Choose an item.
RES QO-5	RES QRi-47	Individuals assigned roles relevant to the SOQM lack the competence and capabilities to undertake those roles.	Choose an item.	Choose an item.	Choose an item.
RES QO-5	RES QRi-48	Personnel performing quality management operational and monitoring functions do not have sufficient time dedicated to QM activities.	Choose an item.	Choose an item.	Choose an item.
RES QO-5	RES QRi-49	Personnel performing quality management functions are not adequately trained to perform QM activities.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
RES QO-6	QM sec. 10, par. .33f	Appropriate technological resources are obtained or developed, implemented, maintained, and used to enable the operation of the firm's system of quality management and the performance of engagements.			
Technological Resources					
RES QO-6	RES QRI-50	Technological resources to enable the operation of the firm's SOQM and the performance of engagements that are obtained or developed are not appropriate, are not implemented, are not maintained, are not used, or are used inappropriately.	Choose an item.	Choose an item.	Choose an item.
RES QO-6	RES QRI-51	The firm fails to invest in and use technological resources that have the ability to enhance quality as well as other benefits such as efficiency.	Choose an item.	Choose an item.	Choose an item.
RES QO-6	RES QRI-52	Inadequate consideration is given to the features, security, controls, and so on when obtaining or developing technological resources that are used in the SOQM, including engagement performance.	Choose an item.	Choose an item.	Choose an item.
RES QO-6	RES QRI-53	Appropriate levels of security and controls are not maintained over IT applications (for example, access to technology tools is granted to unauthorized professionals or is untimely revoked due to reassignments, role changes, terminations, and other unforeseen circumstances).	Choose an item.	Choose an item.	Choose an item.
RES QO-6	RES QRI-54	Personnel are not properly trained to use the firm's technological resources (for example, computer-assisted auditing tool) resulting in overreliance or improper evaluation of results.	Choose an item.	Choose an item.	Choose an item.
RES QO-6	RES QRI-55	Personnel do not have the appropriate competence and capabilities to use technological resources effectively.	Choose an item.	Choose an item.	Choose an item.
RES QO-6	RES QRI-56	Software applications used in assurance, including the firm's engagement performance methodology, are not performing as designed (including version enhancements).	Choose an item.	Choose an item.	Choose an item.
RES QO-6	RES QRI-57	Firm and client data is susceptible to cyber breaches, loss, or theft of IT equipment.	Choose an item.	Choose an item.	Choose an item.
RES QO-6	RES QRI-58	IT failure prevents access to engagement files.	Choose an item.	Choose an item.	Choose an item.

QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk
RES QO-6	QM sec. 10, par. .33f	Appropriate technological resources are obtained or developed, implemented, maintained, and used to enable the operation of the firm's system of quality management and the performance of engagements.			
Technological Resources					
RES QO-6	RES QRi-59	Personnel, including partners, use their personal devices for client work, which presents risks to the control and security of data.	Choose an item.	Choose an item.	Choose an item.
RES QO-6	RES QRi-60	There are disparate, unintegrated systems that do not carry data properly from one to the other or use inconsistent data. Note: This may occur as the result of a merger or acquisition.	Choose an item.	Choose an item.	Choose an item.
RES QO-6	RES QRi-61	Appropriate technological resources are not obtained or are inappropriately developed, are not maintained or lack the necessary IT infrastructure and IT processes for the resource to function effectively, or are not used appropriately.	Choose an item.	Choose an item.	Choose an item.
RES QO-6	RES QRi-62	Technological resources are altered inappropriately.	Choose an item.	Choose an item.	Choose an item.
RES QO-6	RES QRi-63	Technological resources become obsolete.	Choose an item.	Choose an item.	Choose an item.
RES QO-6	RES QRi-64	The firm does not develop, implement, or maintain the necessary technological resources to meet its quality objectives and enable personnel to carry out quality engagements.	Choose an item.	Choose an item.	Choose an item.
RES QO-6	RES QRi-65	In obtaining, developing, implementing, and maintaining an IT application, the firm does not appropriately assess or respond to findings related to the use of the application.	Choose an item.	Choose an item.	Choose an item.
RES QO-6	RES QRi-66	Personnel are not given timely access to the necessary technological resources to complete their assigned responsibilities.	Choose an item.	Choose an item.	Choose an item.

QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk
RES QO-7	QM sec. 10, par. .33g	Appropriate intellectual resources are obtained or developed, implemented, maintained, and used to enable the operation of the firm’s system of quality management and the consistent performance of quality engagements, and such intellectual resources are consistent with professional standards and applicable legal and regulatory requirements, where applicable.			
Intellectual Resources					
RES QO-7	RES QRi-67	Intellectual resources to enable the operation of the firm’s SOQM and the consistent performance of quality engagements are obtained or developed inappropriately, are not implemented, are not maintained, are not used, or are used inappropriately, and such intellectual resources are not consistent with professional standards and applicable legal and regulatory requirements.	Choose an item.	Choose an item.	Choose an item.
RES QO-7	RES QRi-68	The firm relies on third-party practice aids without appropriately customizing them for the nature and circumstances of its practice.	Choose an item.	Choose an item.	Choose an item.
RES QO-7	RES QRi-69	The firm does not receive updated quality management materials on a regular basis.	Choose an item.	Choose an item.	Choose an item.
RES QO-7	RES QRi-70	The firm subscribes only to general quality management materials that are not industry specific.	Choose an item.	Choose an item.	Choose an item.
RES QO-7	RES QRi-71	The intellectual information, including data obtained from third parties or developed by the firm, is not appropriately vetted, is incorrect, or is not updated timely.	Choose an item.	Choose an item.	Choose an item.
RES QO-7	RES QRi-72	The firm does not develop, maintain, and implement the necessary intellectual resources — such as software licenses, research tools, and professional literature — to meet its quality objectives and enable personnel to carry out quality engagements.	Choose an item.	Choose an item.	Choose an item.
RES QO-7	RES QRi-73	Internally developed spreadsheets for firm personnel, including partners, to use contain errors or employ inappropriate methodologies.	Choose an item.	Choose an item.	Choose an item.
RES QO-7	RES QRi-74	Appropriate templates are not used properly in the performance of engagements.	Choose an item.	Choose an item.	Choose an item.
RES QO-7	RES QRi-75	The firm does not have properly designed, implemented, or effective policies or procedures regarding use of the firm’s intellectual resources.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
RES QO-7	QM sec. 10, par. .33g	Appropriate intellectual resources are obtained or developed, implemented, maintained, and used to enable the operation of the firm’s system of quality management and the consistent performance of quality engagements, and such intellectual resources are consistent with professional standards and applicable legal and regulatory requirements, where applicable.			
Intellectual Resources					
RES QO-7	RES QRI-76	Information used to monitor the SOQM is not complete, accurate, or updated with respect to engagement data (engagement listings, classification of engagements, personnel hours, personnel experience, and so on).	Choose an item.	Choose an item.	Choose an item.
RES QO-7	RES QRI-77	The firm does not timely identify and train personnel on changes in applicable professional standards and legal and regulatory requirements.	Choose an item.	Choose an item.	Choose an item.
RES QO-7	RES QRI-78	Following a merger or acquisition, intellectual resources are not integrated or consistent across the firm.	Choose an item.	Choose an item.	Choose an item.
RES QO-8	QM sec. 10, par. .33h	Human, technological, or intellectual resources from service providers are appropriate for use in the firm’s system of quality management and in performing engagements, taking into account preceding quality objectives RES QO-4 through RES QO-7.			
Service Providers					
RES QO-8	RES QRI-79	Human, technological, or intellectual resources from service providers are not appropriate for use in the firm’s SOQM and in the performance of engagements, taking into account the quality objectives in paragraph 33d, e, f, and g of QM section 10, <i>A Firm’s System of Quality Management</i> .	Choose an item.	Choose an item.	Choose an item.
RES QO-8	RES QRI-80	Service provider updates are incorrect, do not reflect changes in professional standards and applicable legal and regulatory requirements, are not timely, or are not accepted by the firm.	Choose an item.	Choose an item.	Choose an item.
RES QO-8	RES QRI-81	Third-party audit team members used on audit engagements are unfamiliar with the firm’s policies and procedures.	Choose an item.	Choose an item.	Choose an item.
RES QO-8	RES QRI-82	The firm fails to timely and effectively determine whether a resource from a service provider is appropriate for use in the firm’s SOQM or in the performance of engagements, nor does the firm take the actions necessary for use to be appropriate (for example, by tailoring the resource for the firm’s nature and circumstances).	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
RES QO-8	QM sec. 10, par. .33h	Human, technological, or intellectual resources from service providers are appropriate for use in the firm’s system of quality management and in performing engagements, taking into account preceding quality objectives RES QO-4 through RES QO-7.			
Service Providers					
RES QO-8	RES QRI-83	The firm fails to timely and effectively consider (i) the nature of the service provider’s resources, (ii) how and the extent to which the firm will use them, and (iii) the general characteristics of the service providers used (for example, the varying types of other professional services firms that are used).	Choose an item.	Choose an item.	Choose an item.
RES QO-8	RES QRI-84	The firm is not adequately monitoring service providers used in the firm’s SOQM.	Choose an item.	Choose an item.	Choose an item.
RES QO-8	RES QRI-85	Client data confidentiality is violated as a result of a data breach when using vendor cloud platforms or other external service providers.	Choose an item.	Choose an item.	Choose an item.
RES QO-8	RES QRI-86	The firm does not timely and effectively communicate information to the service provider or to personnel, including partners necessary for the resource to function effectively.	Choose an item.	Choose an item.	Choose an item.
RES QO-8	RES QRI-87	The firm does not maintain the appropriate policies, procedures, and open channels of communication regarding when and to what extent service providers are or can be used in the firm’s SOQM.	Choose an item.	Choose an item.	Choose an item.
RES QO-8	RES QRI-88	The firm is unable to obtain sufficient service providers or obtain them timely (for example, EQ reviewers).	Choose an item.	Choose an item.	Choose an item.
RES QO-8	RES QRI-89	The firm over-relies on or does not properly evaluate the work of service providers.	Choose an item.	Choose an item.	Choose an item.

Table 3: Required and Suggested Quality Responses — Resources

QRe#	Quality Response	Note, Tip, or Warning
Resources		
Human Resources		
RES QRe-1	Policy: The firm has sufficient personnel with the competence, capabilities, and commitment to ethical principles necessary to perform engagements in accordance with professional standards and applicable legal and regulatory requirements and enable the firm to issue reports that are appropriate in the circumstances.	NOTE: Depending on the firm’s engagements, “sufficient personnel” may consist of only you.
RES QRe-2	Policy: The firm hires only personnel that have the characteristics to enable them to perform competently.	
RES QRe-2.01	An individual in the firm [<i>name or title</i>] is responsible for the firm’s hiring and human resources management, including evaluation of personnel needs; establishment of hiring objectives based on factors such as existing clientele, anticipated growth, personnel turnover, and individual advancement; and providing final approval.	NOTE: Depending on the size and structure of the firm, some of these procedures may be delegated (for example, to the practice office level).
RES QRe-2.02	The firm has a process to identify personnel needs at all levels for use in hiring.	
RES QRe-2.03	The firm has hiring criteria that address the following: <ul style="list-style-type: none"> • The attributes, achievements, and experiences desired in entry-level and experienced personnel to enable them to perform competently within the firm • How the firm evaluates personal characteristics such as integrity, competence, and motivation of new hires • Any additional information the firm requires for experienced hires, such as background checks and inquiries about any outstanding regulatory actions 	
RES QRe-2.04	The firm identifies sources of employment candidates or external human resources, such as universities, executive recruiters, or networks.	

QRe#	Quality Response	Note, Tip, or Warning
Resources		
RES QRe-2.05	The firm has criteria for determining which individuals will be involved in the interviewing and hiring process.	
RES QRe-2.06	Individuals who will be interviewing candidates or otherwise participating in the hiring process are trained in interviewing techniques.	NOTE: This training may be very informal but is necessary, if only to be sure they don't ask anything illegal.
RES QRe-2.07	The firm evaluates the results of the hiring process for each candidate, including approval by the managing partner, or a person designated by the managing partner, of all hiring decisions, in accordance with applicable legal and regulatory requirements.	
RES QRe-3	Policy: Individuals obtained from external resources meet the firm's criteria for eligibility.	
RES QRe-4	Policy: The firm determines capabilities and competencies required for an engagement, including those required of the engagement partner.	
RES QRe-4.01	The firm specifies the knowledge, skills, and abilities (competencies) that the engagement partner for each of the firm's accounting, auditing, or attestation engagements (the partner or other person who is responsible for supervising those types of engagements and signing or authorizing someone to sign the accountant's report on such engagements) should possess to fulfill the engagement partner's responsibilities.	

QRe#	Quality Response	Note, Tip, or Warning
Resources		
RES QRe-4.02	<p>Such competencies for the practitioner-in-charge include the following:</p> <ul style="list-style-type: none"> • An understanding of the role of the firm's system of quality control control and the AICPA Code of Professional Conduct • An understanding of the performance, supervision, and reporting aspects of the engagement • An understanding of the applicable accounting, auditing, or attestation professional standards, including those standards directly related to the industry in which a client operates • An understanding of the industry in which a client operates, including the industry's organization and operating characteristics, to identify the areas of high or unusual risk associated with an engagement and to evaluate the reasonableness of industry-specific estimates • Skills that indicate sound professional judgment, including the ability to exercise professional skepticism • An understanding of how organizations are dependent on or enabled by information technologies and the manner in which information systems are used to record and maintain financial information 	
RES QRe-5	Policy: The firm determines the capabilities and competencies possessed by personnel.	
RES QRe-5.01	The firm evaluates personal characteristics such as integrity, competence, and motivation of personnel on an ongoing basis.	NOTE: The criteria used in evaluating these personal characteristics for new hires can be adapted for this procedure.
RES QRe-5.02	The firm periodically evaluates all personnel, including owners, who sign reports on behalf of the firm to assess whether they possess the knowledge, skills, and abilities (competencies) necessary to enable them to be qualified to perform the firm's accounting, auditing, or attestation engagements (for example, by means of coaching, peer evaluation, or self-appraisal).	

QRe#	Quality Response	Note, Tip, or Warning
Resources		
RES QRe-6	Policy: The firm assigns responsibility for each engagement to an engagement partner. The identity and role of the engagement partner are communicated to management and those charged with governance; the engagement partner has the appropriate competence, capabilities, and authority to perform the role; and the responsibilities of the engagement partner are clearly defined and communicated to that individual.	
RES QRe-6.01	Responsibility for each engagement is assigned to an engagement partner who has the appropriate capabilities, competence, authority, and time to perform the role.	WARNING: Audits often have quality issues when engagement partners take assignments that are outside their normal scope of duties (for example, a tax partner performs an ERISA audit).
RES QRe-6.02	The identity and role of the engagement partner are communicated to management and those charged with governance at the beginning of the engagement.	
RES QRe-6.03	The responsibilities of an engagement partner are clearly defined by the firm and are communicated to the engagement partner.	
RES QRe-6.04	The partner responsible for partner assignments monitors the workload and availability of engagement partners to enable these individuals to have sufficient time to adequately discharge their responsibilities.	
RES QRe-6.05	When an engagement is found to be materially non-conforming after report issuance (for example, through firm monitoring, peer review, or regulatory inspection), the firm (a) requires the engagement partner to take appropriate training and monitors that person's performance (for example, through EQ review) until the firm is satisfied that remediation has occurred, (b) limits or prohibits the engagement partner's assignments on future engagements in that industry or area, or (c) dismisses the engagement partner from the firm.	
RES QRe-7	Policy: The firm assigns appropriate personnel with the necessary competence and capabilities to perform engagements in accordance with professional standards and applicable legal and regulatory requirements and enables the firm to issue reports that are appropriate in the circumstances.	

QRe#	Quality Response	Note, Tip, or Warning
Resources		
RES QRe-7.01	<p>The firm assigns personnel (including partners) to engagements based on the knowledge, skills, and abilities required in the circumstances and the nature and extent of supervision needed. In doing so</p> <ul style="list-style-type: none"> the firm designates a responsible party or parties for the assignment of personnel to engagements, including partner and manager assignments. the firm considers each of the following factors to determine how personnel are assigned to engagements: engagement size and complexity; specialized experience or expertise required; personnel availability and involvement of supervisory personnel; timing of work to be performed; continuity and rotation of personnel; opportunities for on-the-job training; previous knowledge; skills and abilities gained through other experience; and situations in which independence or objectivity concerns exist. 	WARNING: Do not confuse availability with appropriateness. Availability is necessary but it is not, in and of itself, sufficient.
RES QRe-7.02	The firm assures that individuals are maintaining the appropriate licenses to perform their assigned engagements, including for states other than where the individual primarily practices public accounting.	TIP: The website CPAMobility.org may be helpful in determining the necessary individual licenses.
RES QRe-7.03	The firm maintains the appropriate firm licenses or permits, including for states other than where its main office is domiciled.	TIP: The website CPAMobility.org may be helpful in determining the necessary firm licenses or permits.
RES QRe-7.04	When the firm accepts an audit in an industry in which the firm's personnel do not have recent experience, the firm consults appropriate resources (for example, literature, the AICPA Technical Hotline, or a suitably qualified external person) to determine the extent of changes relevant to the engagement. When determined to be necessary, the firm engages a suitably qualified external person to assist with the performance of an audit as a member of the engagement team.	TIP: How recent depends on changes in the industry and related accounting; not more than five years is a useful guideline, but it could be less, especially in regulated industries.
RES QRe-7.05	In all states where the firm practices, the firm (a) is licensed under the same names under which it practices; (b) must obtain licenses or permits that are effective before any reports are issued in the state; (c) considers variations in licensing bodies' rules and regulations and how they affect the firm's need to be licensed in that state; and (d) addresses any restrictions on practice imposed by the licensing bodies.	

QRe#	Quality Response	Note, Tip, or Warning
Resources		
RES QRe-8	Policy: Personnel, including partners, participate in general and industry-specific CPE and professional development activities that enable them to accomplish assigned responsibilities and satisfy applicable CPE requirements of the AICPA, state CPA societies, state boards of accountancy, and other regulators.	TIP: A mix of CPE delivery methods (that is, self-study, webcasts, live presentations) enhances the learning experience.
RES QRe-8.01	The firm has an individual or individuals responsible for the firm's CPE and professional development activities, including maintaining CPE records and course materials for personnel.	
RES QRe-8.02	The firm encourages personnel to pass the Uniform CPA Examination and covers the cost, including paid time off to take the exam.	
RES QRe-8.03	The firm has an orientation and training policy for new hires.	
RES QRe-8.04	The firm informs personnel of their responsibilities and professional development opportunities.	TIP: Establishing developmental opportunities for personnel that reinforce quality can reinforce the firm's commitment to quality.
RES QRe-8.05	The firm provides CPE to personnel in subjects that are relevant to their responsibilities, either through in-house programs or externally developed courses.	
RES QRe-8.06	<i>[If the firm practices in a specialized industry]</i> a partner is designated with firm-wide responsibility for the quality of the firm's practice in [name the specialized industry]. That partner is required to take annual CPE in the specialized industry.	
RES QRe-8.07	All personnel must comply with the professional education requirements of the boards of accountancy in states where they are licensed, and as applicable, the AICPA, the state CPA society, and <i>Government Auditing Standards</i> .	

QRe#	Quality Response	Note, Tip, or Warning
Resources		
RES QRe-8.08	<p>The firm establishes CPE requirements for professional personnel. Under these requirements</p> <ul style="list-style-type: none"> • all professional personnel must participate in CPE and professional development activities, which support their performance in their assigned engagements and are appropriate when considering their role in the firm. • if an individual signs opinions on, performs engagement quality control reviews for, or manages engagements in, a specialized industry or area, the individual must have a minimum of eight hours of CPE specific to the industry or area every three years (or within the firm's or individual's CPE period covering a three-year period). 	<p>WARNING: The requirements for CPE are intended to address competency, not just maintaining a CPA license. Accordingly, all professional personnel, not just those with a CPA license, must take CPE. Taking more CPE than required by state law or regulation may be needed to obtain the necessary competency.</p>
RES QRe-8.09	<p>All personnel must take ethics CPE periodically [<i>specify the period, for example, the minimum required by state law or regulation</i>].</p>	<p>NOTE: This applies to non-licensed professional personnel, as well.</p>
RES QRe-8.10	<p>The firm reimburses personnel who are CPAs for membership in a state society and the AICPA, including AICPA section memberships as relevant.</p>	<p>TIP: This best practice provides personnel with a wealth of resources, such as access to the AICPA Technical Hotline and Ethics Hotline, professional journals, audit tools, and more.</p>
RES QRe-8.11	<p>The firm informs personnel of changes in accounting and auditing standards, independence, integrity, and objectivity requirements and the firm's technical policies and procedures with respect to them (for example, by distributing technical pronouncements and conducting training courses on recent changes and areas noted by the firm as needing improvement).</p>	
RES QRe-8.12	<p>The firm encourages personnel to participate in professional development activities, such as taking graduate-level courses, becoming members of professional organizations, serving on professional committees, speaking to professional groups, and writing for professional publications.</p>	

QRe#	Quality Response	Note, Tip, or Warning
Resources		
RES QRe-9	Policy: Personnel selected for advancement have the qualifications to fulfill the responsibilities they will be called on to assume.	NOTE: In the smallest firms, procedures to address this policy may be developed on an “as needed” basis.
RES QRe-9.01	<p>The firm has a director of human resources to identify and communicate, for example, through the firm’s policies and procedures manual, the qualifications necessary to accomplish responsibilities at each professional level in the firm. This includes the following:</p> <ul style="list-style-type: none"> • Establishing criteria for evaluating personnel at each professional level and for advancement to the next level of responsibility. Such criteria give recognition and reward to the development and maintenance of competence and commitment to ethical principles. • Informing firm personnel about the criteria for advancement to the next higher level of responsibility. 	
	<ul style="list-style-type: none"> • Informing personnel that failure to adhere to the firm’s policies and procedures regarding performance quality and commitment to ethical principles may result in disciplinary action. 	NOTE: In smaller firms, a partner or other person may function in this role without the title.
RES QRe-9.02	The [director of human resources/specify designated person or persons] is responsible for making advancement and termination decisions, including identifying responsibilities and criteria for evaluation at each level and deciding who will prepare evaluations.	
RES QRe-9.03	The firm designates who is responsible for periodically evaluating the performance of personnel at each level and advising them of their progress in the firm.	
RES QRe-9.04	Periodically [specify the period, for example, at least annually or at the conclusion of engagements that last at least three weeks], the firm reviews with personnel their performance evaluations, including an assessment of their knowledge, skills, and abilities (competencies) and progress with the firm. The discussion addresses performance, future objectives of the firm and the individual, feedback on the operation of the firm’s responses and SOQM, assignment preferences, and career opportunities.	TIP: Timely feedback and effective performance reviews give due recognition and reward to the development and maintenance of competence.

QRe#	Quality Response	Note, Tip, or Warning
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Resources

RES QRe-9.05

The firm establishes compensation and advancement criteria for partners and other high-level staff, which address the following:

- Feedback based on monitoring results, peer reviews, and regulatory inspections
- Appropriate identification of significant and emerging accounting and auditing issues
- Appropriate consultation with firm experts when challenging issues arise

TIP: Technical knowledge, adherence to firm policies and procedures, staff development, client management, and practice development are all important considerations in determining partner and senior-level compensation.

Technological Resources

RES QRe-10

Policy: The firm develops or obtains the technology to enable the firm's SOQM, and maintains it, including an annual evaluation to ensure that it is appropriate.

RES QRe-10.01

Before obtaining technological resources, the firm conducts research into its usability in the engagements it performs.

RES QRe-10.02

After implementing new technological resources, the firm monitors and evaluates its effectiveness in increasing quality in the firm's engagements. This assessment considers the following:

- The data inputs are complete and appropriate.
- Data confidentiality is preserved.
- The IT application operates as designed and achieves the purpose for which it is intended.
- The outputs of the IT application achieve the purpose for which they will be used.
- The general IT controls necessary to support the IT application's continued operation as designed are appropriate.
- The need for specialized skills to use the IT application effectively, including the training of individuals who will use the IT application.
- The need to develop procedures that set out how the IT application operates.

QRe#	Quality Response	Note, Tip, or Warning
Resources		
RES QRe-10.03	For technologies that do not enhance quality, the firm looks for new technologies that would have a greater impact on the quality of engagements.	
RES QRe-10.04	The firm documents evaluations, monitoring, and decisions about technologies to be used in the SOQM.	
RES QRe-11	Policy: The firm prohibits the use of IT applications or features of IT applications until such time that it has been determined that they operate appropriately, achieve the purpose for which they are intended, and have been approved for use.	
RES QRe-11.01	The firm uses passwords to restrict access to electronic engagement documentation and timely update authorization when employment status has changed.	
RES QRe-11.02	The firm specifies the qualifications or experience that individuals need to use the resource, including the need for an expert or training for personnel. For example, the firm may specify the qualifications or expertise needed to use an IT application that analyzes data, given that specialized skills may be needed to interpret the results.	
RES QRe-11.03	The firm trains all personnel to use applicable technical resources effectively.	
RES QRe-11.04	The firm stores, safeguards, and maintains electronic and paper-based information.	
RES QRe-11.05	The firm performs regular back-up routines for electronic documentation stored on servers, laptops, and smart phones.	
RES QRe-11.06	The firm prohibits the use of personal devices unless protective software from the firm is installed and maintained on the device with password protection.	

QRe#	Quality Response	Note, Tip, or Warning
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Resources

RES QRe-11.07 The firm assigns responsibility to a qualified individual in the firm for managing the technical resource applications and any program changes to those resources.

RES QRe-11.08 The firm requires the use of certain IT applications in performing engagements or relating to other aspects of the engagement.

RES QRe-11.09 The firm specifies the responsibilities of the engagement partner regarding the use of technological resources.

Intellectual Resources

RES QRe-12 **Policy: The firm uses quality management materials (for example, an audit and accounting manual, standardized forms, checklists, templates, practice aids, tools, questionnaires, and the like) to assist with the operation of the firm's SOQM and the consistent performance of quality engagements.**

RES QRe-12.01 The firm QM partner establishes procedures to ensure that, regardless of whether the firm develops its own quality management materials or obtains it from a third-party provider

- the material is reliable and suitable for the practice.
- the quality management materials are up to date.
- modifications to the package and to individual forms are appropriate.
- the forms being used are appropriate for the engagement.

RES QRe-12.02 The firm evaluates the use of intellectual resources to ensure that they remain appropriate for the operation of quality engagements.

RES QRe-12.03 The firm determines that intellectual resources considered for use by the firm follow professional standards as well as legal and regulatory requirements that apply to the engagements that the firm performs.

QRe#	Quality Response	Note, Tip, or Warning
Resources		
RES QRe-12.04	Before obtaining or developing intellectual resources, the firm considers the impact on the firm's SOQM and on the engagements that it performs.	
RES QRe-12.05	The firm documents its considerations regarding intellectual resources.	
RES QRe-12.06	The firm assigns responsibility to a qualified individual in the firm for managing the intellectual resources and any changes to those resources.	
RES QRe-12.07	The firm requires the use of certain intellectual resources in performing engagements or relating to other aspects of the engagement.	
RES QRe-12.08	The firm specifies the responsibilities of the engagement partner regarding the use of intellectual resources.	
RES QRe-12.09	The firm describes how intellectual resources are to be used, including how the intellectual resource should be applied, and the availability of training and support.	
Service Providers		
RES QRe-13	Policy: The firm devotes sufficient time and resources to timely obtain resources from service providers when internal resources are not sufficient to meet the quality objectives.	
RES QRe-13.01	The firm evaluates the use of resources received from service providers to meet its quality objectives and its appropriateness for its SOQM.	
RES QRe-13.02	Before using a resource (whether human, technical, or intellectual) from a service provider, the firm establishes an understanding of the nature of the resources provided, how and the extent to which they will be used by the firm, and the general characteristics of the service provider, including their experience and reputation.	

QRe#	Quality Response	Note, Tip, or Warning
Resources		
RES QRe-13.03	Once a service provider's resource is used, the firm monitors and evaluates its effectiveness in increasing quality in the firm's engagements or SOQM, as applicable.	
RES QRe-13.04	For resources that are not appropriate, the firm works with service providers to remediate the resources or looks to other means for these resources.	
RES QRe-13.05	The firm establishes an understanding with the service provider regarding the frequency and accuracy of updates to the resources they are providing, when applicable.	
RES QRe-13.06	The firm considers the results of attestation engagements performed by independent third parties on the resource (for example, assurance engagements on quality control materials or reports on service organization controls).	TIP: In determining whether a resource is appropriate, the firm may consider the results of an examination engagement performed on that resource and whether the criteria used to evaluate the resource in that examination are suitable. Paragraph .27 of AT-C section 105, <i>Concepts Common to All Attestation Engagements</i> , ¹ requires suitable criteria for reasonably consistent measurement or evaluation of the resource within the context of professional judgment. Without the frame of reference provided by suitable criteria, any conclusion is open to individual interpretation and misunderstanding. Criteria promulgated by a body designated by the Council of the AICPA under the AICPA Code of Professional Conduct are, by definition, considered to be suitable (see paragraphs .A44–.A46 of AT-C section 105. This includes criteria developed by the AICPA.
RES QRe-13.07	The firm establishes an understanding with the service provider regarding the information needed from the firm for the resource to operate effectively. Firm leadership will be assigned to monitor the firm's compliance.	
RES QRe-13.08	The firm documents the use of resources from service providers and from the network and the evaluation of the resources provided.	

Table 4: Example of Evaluated Quality Risks and Linked Responses – Resources

The following table provides examples of evaluated quality risks and linked responses to each quality risk. Please note that this is for illustrative purposes only. Your firm may identify other risks, may evaluate the likelihood and impact of those risks differently, and may choose other responses. The examples are not complete; if all you do is copy and paste these examples, your SOQM will not provide reasonable assurance of achieving its objectives.

The following examples illustrate the documentation of establishing quality objectives, evaluating quality risks, and designing the firm's responses to those quality risks. This is not a complete picture of an established SOQM. The implementation, evaluation, and monitoring of the system will need to be documented and established, as well.

Resources							
RES QO-1		Personnel are hired, developed, and retained and have the competence and capabilities to <ul style="list-style-type: none"> i. consistently perform quality engagements, including having knowledge or experience relevant to the engagements the firm performs, or ii. perform activities or carry out responsibilities in relation to the operation of the firm's system of quality management. 					
QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk	Quality Response	QRe#
RES QO-1	RES QRI-2	Personnel, including partners, do not have the competence and capabilities to perform activities or carry out responsibilities in relation to the operation of the firm's SOQM.	Low	High	Yes	The firm has sufficient personnel with the competence, capabilities, and commitment to ethical principles necessary to perform engagements in accordance with professional standards and applicable legal and regulatory requirements and enable the firm to issue reports that are appropriate in the circumstances.	RES QRe-1
RES QO-2		Personnel demonstrate a commitment to quality through their actions and behaviors, develop and maintain the appropriate competence to perform their roles, and are held accountable or recognized through timely evaluations, compensation, promotion, and other incentives.					
RES QO-2	RES QRI-10	Personnel, including partners, do not demonstrate a commitment to quality.	Low	High	Yes	The firm evaluates personal characteristics such as integrity, competence, and motivation of personnel on an ongoing basis.	RES QRe-5.01

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk	Quality Response	QRe#
RES QO-6	Appropriate technological resources are obtained or developed, implemented, maintained, and used to enable the operation of the firm's system of quality management and the performance of engagements.						
RES QO-6	RES QRe-56	Software applications used in assurance, including the firm's engagement performance methodology, are not performing as designed (including version enhancements).	Medium	High	Yes	<p>After implementing new technological resources, the firm monitors and evaluates its effectiveness in increasing quality in the firm's engagements. This assessment considers the following:</p> <ul style="list-style-type: none"> • The data inputs are complete and appropriate. • Data confidentiality is preserved. • The IT application operates as designed and achieves the purpose for which it is intended. • The outputs of the IT application achieve the purpose for which it will be used. • The general IT controls necessary to support the IT application's continued operation as designed are appropriate. • The need for specialized skills to use the IT application effectively, including the training of individuals who will use the IT application, is met. • The need to develop procedures that set out how the IT application operates is met. 	RES QRe-10.02

Information and Communication

Table 1: Required Quality Objectives – Information and Communication

QO #	Ref:	Quality Objectives
I&C QO-1	QM sec. 10, par. .34a	The information system identifies, captures, processes, and maintains relevant and reliable information that supports the SOQM, whether from internal or external sources.
I&C QO-2	QM sec. 10, par. .34b	The culture of the firm recognizes and reinforces the responsibility of personnel to exchange information with the firm and with one another.
I&C QO-3	QM sec. 10, par. .34c	Relevant and reliable information is exchanged throughout the firm and with engagement teams, including the following: <ul style="list-style-type: none"> i. Information is communicated to personnel and engagement teams, and the nature, timing, and extent of the information is sufficient to enable them to understand and carry out their responsibilities relating to performing activities within the SOQM or engagements. ii. Personnel and engagement teams communicate information to the firm when performing activities within the SOQM or engagements.
I&C QO-4	QM sec. 10, par. .34d	Relevant and reliable information is communicated to external parties, including the following: <ul style="list-style-type: none"> i. Information is communicated by the firm to or within the firm's network or to service providers, if any, enabling the network or service providers to fulfill their responsibilities relating to the network requirements or network services or resources provided by them. ii. Information is communicated externally when required by law, regulation, or professional standards or to support external parties' understanding of the SOQM.

Table 2: Required Quality Objectives and Potential Quality Risks – Information and Communication

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
I&C QO-1	QM sec. 10, par. .34a	The information system identifies, captures, processes, and maintains relevant and reliable information that supports the system of quality management, whether from internal or external sources.			
I&C QO-1	I&C QRI-1	The information system does not identify, capture, process, or maintain relevant and reliable information that supports the SOQM, whether from internal or external sources.	Choose an item.	Choose an item.	Choose an item.
I&C QO-1	I&C QRI-2	Electronic and paper-based information is not appropriately stored and maintained.	Choose an item.	Choose an item.	Choose an item.
I&C QO-1	I&C QRI-3	The integrity of the SOQM may be compromised, including data loss due to system failure or theft, either physical or cyber; unauthorized changes; and version control.	Choose an item.	Choose an item.	Choose an item.
I&C QO-1	I&C QRI-4	Information that the firm identifies, captures, processes, and maintains is not complete, accurate, timely, or valid to enable the proper functioning of the firm's SOQM and to support decisions regarding the SOQM.	Choose an item.	Choose an item.	Choose an item.
I&C QO-1	I&C QRI-5	Procedures to identify, capture, process, maintain, and communicate information are not established or clearly defined.	Choose an item.	Choose an item.	Choose an item.
Monitoring					
I&C QO-1	I&C QRI-6	Information from the resolution of complaints and allegations received is not communicated and used to improve the firm's SOQM.	Choose an item.	Choose an item.	Choose an item.
I&C QO-1	I&C QRI-7	Remediation efforts to resolve deficiencies in information and communication remain unresolved or improvements are delayed or not completed.	Choose an item.	Choose an item.	Choose an item.
Change Management					
I&C QO-1	I&C QRI-8	The firm does not have effective tools for communicating information and changes regarding the SOQM (for example, policies, procedures, and changes to the SOQM) to those who need to be informed.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
I&C QO-1	QM sec. 10, par. .34a	The information system identifies, captures, processes, and maintains relevant and reliable information that supports the system of quality management, whether from internal or external sources.			
Change Management					
I&C QO-1	I&C QRI-9	The firm does not communicate changes to the SOQM to personnel and engagement teams to the extent that the changes are relevant to their responsibilities.	Choose an item.	Choose an item.	Choose an item.
I&C QO-1	I&C QRI-10	The firm does not have effective tools for communicating changes in accounting standards, professional standards, law, or regulation.	Choose an item.	Choose an item.	Choose an item.
Laws and Regulations					
I&C QO-1	I&C QRI-11	The firm fails to identify a requirement to communicate with an external party.	Choose an item.	Choose an item.	Choose an item.
I&C QO-1	I&C QRI-12	The information needed to verify compliance with the firm’s SOQM (for example, licensure status, independence compliance, continuing professional education [CPE], and so on) is not adequately maintained or checked for completeness.	Choose an item.	Choose an item.	Choose an item.
I&C QO-1	I&C QRI-13	The information provided by personnel regarding compliance with the firm’s SOQM (for example, licensure status, independence compliance, CPE, and so on) is not checked for accuracy.	Choose an item.	Choose an item.	Choose an item.
I&C QO-1	I&C QRI-14	The firm’s SOQM fails to develop and evolve in line with changes in the regulatory framework, changes in the nature and circumstances of the firm, best practices, and so on (for example, the firm relies on manual processes, which become too difficult to maintain as the size of the firm grows).	Choose an item.	Choose an item.	Choose an item.
Other					
I&C QO-1	I&C QRI-15	A failure to exchange information between the firm and the engagement team, or among engagement team members, results in quality issues.	Choose an item.	Choose an item.	Choose an item.
I&C QO-1	I&C QRI-16	A failure to exchange information results in lost opportunities to improve the firm’s quality management system.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
I&C QO-2	QM sec. 10, par. .34b	The culture of the firm recognizes and reinforces the responsibility of personnel to exchange information with the firm and with one another.			
I&C QO-2	I&C QRI-17	The culture of the firm does not recognize nor reinforce the responsibility of personnel to exchange information with the firm and with one another.	Choose an item.	Choose an item.	Choose an item.
Tone at the Top					
I&C QO-2	I&C QRI-18	The actions, informal communications, and responses of individuals of various leadership positions (including engagement team leadership) imply that certain aspects of the firm's SOQM are not important or necessary.	Choose an item.	Choose an item.	Choose an item.
I&C QO-2	I&C QRI-19	The firm's culture does not recognize and reinforce the responsibility of personnel to exchange information within the firm and one another.	Choose an item.	Choose an item.	Choose an item.
I&C QO-2	I&C QRI-20	The QM partner fails to communicate to relevant personnel and engagement teams changes in the independence and other SOQM requirements and the firm's policies or procedures to address such changes.	Choose an item.	Choose an item.	Choose an item.
I&C QO-2	I&C QRI-21	Engagement personnel are affected by email fatigue.	Choose an item.	Choose an item.	Choose an item.
I&C QO-2	I&C QRI-22	The firm fails to establish a culture of collaboration among teams and across the firm.	Choose an item.	Choose an item.	Choose an item.
I&C QO-2	I&C QRI-23	Lack of a proper chain of command results in inconsistent messaging of firm policies and methodology.	Choose an item.	Choose an item.	Choose an item.
I&C QO-2	I&C QRI-24	A culture of working within silos conflicts with the responsibility of personnel to collaborate and exchange information within and across practice groups, resulting in audit quality issues.	Choose an item.	Choose an item.	Choose an item.
Engagement Team and Personnel Responsibility					
I&C QO-2	I&C QRI-25	The firm inadequately communicates quality issues.	Choose an item.	Choose an item.	Choose an item.
I&C QO-2	I&C QRI-26	Personnel are not informed of where improvements can be made to the quality of the work they perform.	Choose an item.	Choose an item.	Choose an item.

QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk
I&C QO-2	QM sec. 10, par. .34b	The culture of the firm recognizes and reinforces the responsibility of personnel to exchange information with the firm and with one another.			
I&C QO-2	I&C QRi-27	The firm fails to communicate the responsibility for implementing the firm's policies and procedures to personnel.	Choose an item.	Choose an item.	Choose an item.
I&C QO-2	I&C QRi-28	Engagement teams fail to communicate information to the EQ reviewer or individuals providing consultation.	Choose an item.	Choose an item.	Choose an item.
I&C QO-2	I&C QRi-29	Group engagement teams fail to communicate matters to component auditors in accordance with the firm's policies or procedures, including matters related to quality management at the engagement level.	Choose an item.	Choose an item.	Choose an item.
I&C QO-3	QM sec. 10, par. .34c	Relevant and reliable information is exchanged throughout the firm and with engagement teams, including the following: i. Information is communicated to personnel and engagement teams, and the nature, timing, and extent of the information is sufficient to enable them to understand and carry out their responsibilities relating to performing activities within the system of quality management or engagements. ii. Personnel and engagement teams communicate information to the firm when performing activities within the system of quality management or engagements.			
I&C QO-3	I&C QRi-30	Unreliable information is exchanged throughout the firm and with engagement teams.	Choose an item.	Choose an item.	Choose an item.
I&C QO-3	I&C QRi-31	Relevant and reliable information is not exchanged throughout the firm and with engagement teams. The nature, timing, and extent of the information is not sufficient to enable them to understand and carry out their responsibilities relating to performing activities within the SOQM or engagements.	Choose an item.	Choose an item.	Choose an item.
I&C QO-3	I&C QRi-32	Personnel and engagement teams do not communicate information to the firm when performing activities within the SOQM or engagements.	Choose an item.	Choose an item.	Choose an item.
Ultimate Responsible Party					
I&C QO-3	I&C QRi-33	Individuals tasked with the operational and monitoring functions over the firm's SOQM are not given clear instructions regarding their roles and responsibilities.	Choose an item.	Choose an item.	Choose an item.
I&C QO-3	I&C QRi-34	Those charged with operational and monitoring functions over the firm's SOQM do not have a direct line of communication to the managing partner.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
I&C QO-3	QM sec. 10, par. .34c	<p>Relevant and reliable information is exchanged throughout the firm and with engagement teams, including the following:</p> <ul style="list-style-type: none"> i. Information is communicated to personnel and engagement teams, and the nature, timing, and extent of the information is sufficient to enable them to understand and carry out their responsibilities relating to performing activities within the system of quality management or engagements. ii. Personnel and engagement teams communicate information to the firm when performing activities within the system of quality management or engagements. 			
Firm Communication					
I&C QO-3	I&C QRI-35	External conditions force engagement teams to work remotely (for example, a global pandemic) and the practical difficulties involved presents a risk that information is not communicated to engagement teams to enable them to understand and carry out their responsibilities in performing the engagement.	Choose an item.	Choose an item.	Choose an item.
I&C QO-3	I&C QRI-36	Leadership lacks a policy to communicate important matters to the firm and criteria for identifying such matters.	Choose an item.	Choose an item.	Choose an item.
Engagement Team and Personnel Responsibility					
I&C QO-3	I&C QRI-37	The engagement team does not communicate concerns with how the firm is responding to identified quality management risks. (for example, concerns about the firm's processes for assigning personnel to engagements). <i>[Note that the information provided through these communications may indicate a deficiency of the firm's SOQM.]</i>	Choose an item.	Choose an item.	Choose an item.
I&C QO-3	I&C QRI-38	Relevant and reliable information is not sufficiently communicated to personnel and engagement teams to enable them to understand and execute their responsibilities within the SOQM.	Choose an item.	Choose an item.	Choose an item.
I&C QO-3	I&C QRI-39	Findings from an EQ review, peer review, or other quality reviews or assessments are not communicated to the engagement teams.	Choose an item.	Choose an item.	Choose an item.
I&C QO-3	I&C QRI-40	The engagement partner and partner(s) providing other services to the client do not communicate relevant information to each other for independence purposes.	Choose an item.	Choose an item.	Choose an item.
I&C QO-3	I&C QRI-41	Engagement team members are not adequately informed of their roles and responsibilities at the engagement level.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
I&C QO-3	QM sec. 10, par. .34c	Relevant and reliable information is exchanged throughout the firm and with engagement teams, including the following: <ul style="list-style-type: none"> i. Information is communicated to personnel and engagement teams, and the nature, timing, and extent of the information is sufficient to enable them to understand and carry out their responsibilities relating to performing activities within the system of quality management or engagements. ii. Personnel and engagement teams communicate information to the firm when performing activities within the system of quality management or engagements. 			
I&C QO-3	I&C QRI-42	Personnel and engagement teams fail to communicate relevant or reliable information to the firm when performing activities within the SOQM or engagements.	Choose an item.	Choose an item.	Choose an item.
I&C QO-3	I&C QRI-43	Firm professionals do not receive timely feedback on performance.	Choose an item.	Choose an item.	Choose an item.
I&C QO-3	I&C QRI-44	Firm professionals fail to communicate information obtained during client acceptance and continuance that is relevant to engagement teams planning and performing engagements.	Choose an item.	Choose an item.	Choose an item.
I&C QO-3	I&C QRI-45	The firm fails to communicate or make readily available firm policies to personnel.	Choose an item.	Choose an item.	Choose an item.
I&C QO-3	I&C QRI-46	The firm's policies and procedures are not updated consistently and timely.	Choose an item.	Choose an item.	Choose an item.
I&C QO-3	I&C QRI-47	Firm forms and templates are inappropriately modified or completed incorrectly by engagement teams.	Choose an item.	Choose an item.	Choose an item.
I&C QO-3	I&C QRI-48	Firm policies, procedures, and methodologies are not clearly documented, organized in a logical format, or easily accessible, so they are difficult for engagement teams to locate, follow, and comply with.	Choose an item.	Choose an item.	Choose an item.
I&C QO-3	I&C QRI-49	Changes to the firm's policies, procedures, or methodology are not communicated to personnel.	Choose an item.	Choose an item.	Choose an item.
I&C QO-3	I&C QRI-50	Learning and development programs are not delivered in a frequency, length, and format that ensures participant engagement.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
I&C QO-4	QM sec. 10, par. .34d	Relevant and reliable information is communicated to external parties, including the following: i. Information is communicated by the firm to or within the firm's network or to service providers, if any, enabling the network or service providers to fulfill their responsibilities relating to the network requirements or network services or resources provided by them. ii. Information is communicated externally when required by law, regulation, or professional standards or to support external parties' understanding of the system of quality management.			
I&C QO-4	I&C QRI-51	Relevant and reliable information is not communicated to external parties. Irrelevant or unreliable information is communicated to external parties.	Choose an item.	Choose an item.	Choose an item.
I&C QO-4	I&C QRI-52	Information is not communicated by the firm to or within the firm's network or to service providers, if any, preventing the network or service providers from fulfilling their responsibilities relating to the network requirements or network services or resources provided by them.	Choose an item.	Choose an item.	Choose an item.
I&C QO-4	I&C QRI-53	Information is not communicated externally when required by law, regulation, or professional standards, or to support external parties' understanding of the SOQM.	Choose an item.	Choose an item.	Choose an item.
Incoming and Outgoing Communication					
I&C QO-4	I&C QRI-54	The firm does not obtain relevant and reliable information from service providers that is necessary to establish and maintain the design, implementation, and operation of the firm's SOQM.	Choose an item.	Choose an item.	Choose an item.
I&C QO-4	I&C QRI-55	The firm fails to communicate information to its network that can result in quality issues either at the firm or elsewhere in the network.	Choose an item.	Choose an item.	Choose an item.
I&C QO-4	I&C QRI-56	The firm fails to communicate relevant and reliable information to service providers.	Choose an item.	Choose an item.	Choose an item.
I&C QO-4	I&C QRI-57	Improper information may be disseminated to external parties.	Choose an item.	Choose an item.	Choose an item.
I&C QO-4	I&C QRI-58	Leadership lacks a policy regarding proper communications with external parties.	Choose an item.	Choose an item.	Choose an item.
I&C QO-4	I&C QRI-59	Engagement quality issues are not communicated to firm clients timely or at all.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
I&C QO-4	QM sec. 10, par. .34d	Relevant and reliable information is communicated to external parties, including the following: i. Information is communicated by the firm to or within the firm's network or to service providers, if any, enabling the network or service providers to fulfill their responsibilities relating to the network requirements or network services or resources provided by them. ii. Information is communicated externally when required by law, regulation, or professional standards or to support external parties' understanding of the system of quality management.			

Laws and Regulations

I&C QO-4	I&C QRI-60	The firm is unaware of its communication responsibilities under professional standards or legal and regulatory requirements, or both.	Choose an item.	Choose an item.	Choose an item.
I&C QO-4	I&C QRI-61	Information is not communicated externally when required by law, regulation, or professional standards, or to support external parties' understanding of the SOQM.	Choose an item.	Choose an item.	Choose an item.
I&C QO-4	I&C QRI-62	Law, regulation, or relevant ethical requirements include provisions addressing the duty of confidentiality, and the firm does not prevent violations from happening; detect violations that have occurred; or take corrective measures when aware of violations.	Choose an item.	Choose an item.	Choose an item.
I&C QO-4	I&C QRI-63	Law or regulation requires the firm to publish a transparency report and specifies the nature of the information that is required to be included in the transparency report, and the firm fails to do so.	Choose an item.	Choose an item.	Choose an item.

Independence and the SOQM

I&C QO-4	I&C QRI-64	The firm does not obtain information from the network or other network firms about clients of other network firms when there are independence requirements that affect the firm.	Choose an item.	Choose an item.	Choose an item.
I&C QO-4	I&C QRI-65	The firm does not obtain an understanding of the SOQM in place at network firms or service providers.	Choose an item.	Choose an item.	Choose an item.
I&C QO-4	I&C QRI-66	Deficiencies in the SOQM of network firms or service providers that are identified by the firm are not brought to the attention of the counterparty in a prompt manner.	Choose an item.	Choose an item.	Choose an item.
I&C QO-4	I&C QRI-67	The firm does not communicate its findings from monitoring its quality management system to its network.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
I&C QO-4	QM sec. 10, par. .34d	<p>Relevant and reliable information is communicated to external parties, including the following:</p> <ul style="list-style-type: none"> i. Information is communicated by the firm to or within the firm's network or to service providers, if any, enabling the network or service providers to fulfill their responsibilities relating to the network requirements or network services or resources provided by them. ii. Information is communicated externally when required by law, regulation, or professional standards or to support external parties' understanding of the system of quality management. 			
Independence and the SOQM					
I&C QO-4	I&C QRI-68	The firm obtains information from the network or other network firms about clients of other network firms when there are independence requirements that affect the firm, and the firm fails to act timely or appropriately.	Choose an item.	Choose an item.	Choose an item.
I&C QO-4	I&C QRI-69	The firm fails to communicate information to its network that can result in quality issues, independence violations, or other matters at the firm or within the network.	Choose an item.	Choose an item.	Choose an item.

Table 3: Required and Suggested Quality Responses — Information and Communication

QRe#	Quality Response	Note, Tip, or Warning
Information and Communication		
I&C QRe-1	<p>Policy: The firm communicates information about our SOQM as prescribed by its policies and procedures with the following external parties if requested:</p> <ul style="list-style-type: none"> • Management or those charged with governance of a potential new client • External oversight authorities • Group auditors • Other users of our firm engagement reports 	<p>NOTE: Establishing policies or procedures that address when it is appropriate to communicate with external parties about the firm's SOQM is a required response. [QM sec. 10, par. .35e(i)]</p>
I&C QRe-1.01	The firm communicates information to service providers, or network firms, necessary for them to fulfill their responsibilities.	
I&C QRe-1.02	The firm communicates information externally when required by law, regulation, or professional standards (for example, if the firm becomes aware of noncompliance with laws and regulations by a client, and relevant ethical requirements require the firm to report the noncompliance to an appropriate external authority).	<p>TIP: Know your client base; securities law or regulation requires the firm to communicate certain matters to those charged with governance.</p>
I&C QRe-1.03	The QM partner is responsible for identifying external parties with whom the firm is required to communicate, and the information required to be communicated.	<p>NOTE: Confidentiality law or regulation prohibits disclosure of certain information — stay alert.</p>
I&C QRe-2	Policy: The firm shares information about the firm's SOQM externally only after the QM partner has reviewed for accuracy and relevance, and has confirmed that sharing does not breach confidentiality requirements.	<p>NOTE: This is a required response. [QM sec. 10, par. .35e(ii)]</p>
I&C QRe-2.01	When communicating with external parties, I provide the results of monitoring activities and external inspections and how the firm has remediated identified deficiencies, if applicable.	<p>NOTE: Paragraphs .A137–.A138 of QM section 10 address other factors to consider when developing your communication policy.</p>

QRe#	Quality Response	Note, Tip, or Warning
Information and Communication		
I&C QRe-2.02	The QM partner periodically reviews the information provided through the firm's website for accuracy, completeness, and balance.	<p>NOTE: Forms of external communication include</p> <ul style="list-style-type: none"> • a web page, • social media or webcasts, • discussions between the engagement team and those charged with governance, and • a transparency or audit quality report. <p>NOTE: A transparency report may be required by law or regulation and specifies the nature of the information required to be included.</p>
I&C QRe-3	Policy: The QM partner reports directly to the managing partner.	<p>NOTE: Individuals assigned operational responsibility for the SOQM, compliance with independence requirements, and the monitoring and remediation process are required to have a direct line of communication to the individual assigned ultimate responsibility and accountability for the SOQM. [QM sec. 10, par. .23]</p>
I&C QRe-3.01	Those charged with operational and monitoring functions over the firm's SOQM have a direct line of communication to the managing partner.	
I&C QRe-4	Policy: The firm has established communication channels to facilitate communication across the firm (for example, weekly leadership meetings).	
I&C QRe-4.01	The firm publishes a quarterly newsletter that discusses internal and external developments. The newsletter is distributed through various channels to avoid being lost in email.	
I&C QRe-4.02	Engagement teams communicate information about the operation of firm's responses (for example, concerns about the firm's process for assigning personnel to engagements).	
I&C QRe-4.03	When leadership becomes aware of information that affects specific engagement teams, they alert the engagement partner to communicate the information to the rest of the engagement team.	

QRe#	Quality Response	Note, Tip, or Warning
Information and Communication		
I&C QRe-4.04	Although there may be formal channels of communication, leadership promotes a culture in which collaboration and open communication are encouraged.	TIP: Such a culture may include a mentoring program and is evidenced when staff are comfortable speaking with firm leadership.
I&C QRe-4.05	The firm holds annual firm-wide or practice-office-wide brainstorming sessions.	

Table 4: Example of Evaluated Quality Risks and Linked Responses — Information and Communication

The following table provides examples of evaluated quality risks and linked responses to each quality risk. Please note that this is for illustrative purposes only. Your firm may identify other risks, may evaluate the likelihood and impact of those risks differently, and may choose other responses. The examples are not complete; if all you do is copy and paste these examples, your SOQM will not provide reasonable assurance of achieving its objectives.

The following examples illustrate the documentation of establishing quality objectives, evaluating quality risks, and designing the firm's responses to those quality risks. This is not a complete picture of an established SOQM. The implementation, evaluation, and monitoring of the system will need to be documented and established, as well.

Information and Communication							
I&C QO-1		The information system identifies, captures, processes, and maintains relevant and reliable information that supports the system of quality management, whether from internal or external sources.					
QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk	Quality Response	QRe#
I&C QO-1	I&C QRI-11	The firm fails to identify a requirement to communicate with an external party.	Low	High	Yes	The firm communicates information externally when required by law, regulation, or professional standards. For example, if the firm becomes aware of noncompliance with laws and regulations by a client, and relevant ethical requirements require the firm to report the noncompliance to an appropriate external authority.	I&C QRe-1.02
I&C QO-4		Relevant and reliable information is communicated to external parties, including the following: i. Information is communicated by the firm to or within the firm's network or to service providers, if any, enabling the network or service providers to fulfill their responsibilities relating to the network requirements or network services or resources provided by them. ii. Information is communicated externally when required by law, regulation, or professional standards or to support external parties' understanding of the system of quality management.					
I&C QO-4	I&C QRI-53	Information is not communicated externally when required by law, regulation, or professional standards, or to support external parties' understanding of the SOQM.	Medium	High	Yes	The firm communicates information about our SOQM as prescribed by our policies and procedures with the following external parties if requested: • Management or those charged with governance of a potential new client • External oversight authorities • Group auditors or other users of the firm's engagement reports	I&C QRe-1

Exhibit: Relevant Responses From Other Components

The following is a list of information and communication quality risks that can be addressed by quality responses (firm policies) from other components.

Quality risk #	Quality risk	Quality response	QRe#
Governance and Leadership			
I&C QRI-45	The firm fails to communicate or make readily available firm policies to personnel.	The firm documents its QM policies and procedures and communicates them to the firm's personnel.	GOV QRe-4
I&C QRI-23	Lack of a proper chain of command results in inconsistent messaging of firm policies and methodology.	The firm devotes sufficient and appropriate resources for the development, communication, and support of its QM policies and procedures.	GOV QRe-8
I&C QRI-43	Firm professionals do not receive timely feedback on performance.	Performance evaluation, compensation, and advancement (including incentive systems) with regard to firm partners and personnel demonstrate the firm's overarching commitment to the objectives of the SOQM	GOV QRe-9
Relevant Ethical Requirements			
I&C QRI-20	The QM partner fails to communicate to relevant personnel and engagement teams changes in the independence and other SOQM requirements and the firm's policies or procedures to address such changes.	The firm communicates its independence requirements to firm personnel and, when applicable, others subject to them.	RER QRe-2
I&C QRI-12	The information needed to verify compliance with the firm's SOQM (for example, licensure status, independence compliance, CPE, and so on) is not adequately maintained or checked for completeness.	The firm obtains written confirmation, upon hire and at least annually, of compliance with its policies and procedures regarding independence from all personnel required to be independent by relevant requirements.	RER QRe-6
Engagement Acceptance and Continuance			
I&C QRI-44	Firm professionals fail to communicate information obtained during client acceptance and continuance that is relevant to engagement teams planning and performing engagements.	The firm has established policies and procedures when information that becomes known subsequent to accepting or continuing a client relationship or specific engagement that may have affected the firm's decision to accept or continue a client relationship or specific engagement.	EAC QRe-3

Quality risk #	Quality risk	Quality response	QRe#
Engagement Performance			
I&C QRI-48	Firm policies, procedures and methodologies are not clearly documented, organized in a logical format, or easily accessible so they are difficult for engagement teams to locate, follow, and comply with.	The firm uses quality management materials (for example, an audit and accounting manual, standardized forms, checklists, templates, practice aids, tools, questionnaires, and the like) to assist with engagement performance.	EP QRe-1 and RES QRe-12
I&C QRI-51	Relevant and reliable information is not communicated to external parties.	The firm establishes, documents, and follows procedures when the firm uses external personnel, such as from other firms, for audit or accounting engagements.	EP QRe-7
I&C QRI-28	Engagement teams fail to communicate information to the engagement quality reviewer or individuals providing consultation.	The firm requires that consultation take place when appropriate; that sufficient and appropriate resources are available to enable appropriate consultation to take place; that all the relevant facts known to the engagement team are provided to those consulted; that the nature, scope, and conclusions of such consultations are documented; and that conclusions resulting from such consultations are implemented.	EP QRe-11
Resources			
I&C QRI-40	The engagement partner and partner(s) providing other services to the client do not communicate relevant information to each other for independence purposes.	The firm assigns responsibility for each engagement to an engagement partner. The identity and role of the engagement partner are communicated to management and those charged with governance; the engagement partner has the appropriate competence, capabilities, and authority to perform the role; and the responsibilities of the engagement partner are clearly defined and communicated to that individual.	RES QRe-6
I&C QRI-56	The firm fails to communicate relevant and reliable information to service providers.	The firm develops or obtains the technology to enable the firm's SOQM, and maintains it, including an annual evaluation to ensure that it is appropriate.	RES QRe-10

Chapter 4 — Monitoring and Remediation Process

The monitoring and remediation process involves an ongoing consideration and evaluation of the appropriateness of the design, implementation, and the effectiveness of the operation of a firm's system of quality management (SOQM) and a firm's compliance with its quality management policies and procedures.

A monitoring and remediation process

- provides relevant, reliable, and timely information about the design, implementation, and operation of the SOQM, and
- enables the firm to take appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis.

The information provided also enables the firm — specifically, the managing partner — to evaluate whether the SOQM provides reasonable assurance that

- the firm adheres to professional standards and regulatory and legal requirements, and
- reports that are issued by the firm are appropriate in the circumstances.

The purpose of the monitoring and remediation process is to provide feedback on how the SOQM is working, determine whether changes are needed and, if so, implement the necessary changes. Monitoring activities include inspections of engagement documentation, reports and financial statements, and inspections of other components covered by the firm's SOQM. Reviews of engagement documentation, reports and financial statements can occur

- before the report is issued (engagement quality [EQ] review or other pre-issuance review) or
- after the report is issued (post-issuance review).

EQ review and other pre-issuance reviews are not, in and of themselves, suitable inspection procedures for monitoring. However, to the extent that information obtained from a pre-issuance review is evaluated in terms of what happens on other engagements and addressed systemically — that is monitoring.

Post-issuance reviews can occur on an engagement-by-engagement basis or at set times during the year.

The difference between engagement performance quality management (QM) procedures and monitoring QM procedures is that monitoring activities are designed to determine the root cause of the problem and then fix the problem systemically. Engagement performance QM procedures fix the problem at the engagement level but does not look for the root cause, nor are engagement performance QM procedures designed to fix the problem systemically.

TIP: Monitoring and remediation is a continuous process. If you are in the frame of mind to always be looking for errors and root causes, that's monitoring. Send an email to the firm when you see something — that's monitoring, communicating, and documenting. Save the email in a "monitoring" folder and you've documented as you go along so you can "get credit" for what you already do.



NOTE: Inspection of engagement documentation, reports and financial statements is only one type of monitoring activity. Don't forget other aspects, such as resources (human, intellectual, and technological), continuing professional education (CPE), licenses, and the requirements of audit quality centers of which your firm is a member.

The rest of this chapter presents suggested policies and procedures for the monitoring and remediation process. These suggested policies and procedures may not be all inclusive; you need to tailor this information based on your firm. The firm does not have to apply the risk assessment process to monitoring and remediation. However, in evaluating and concluding on the SOQM, the firm does need to consider whether the monitoring and remediation process achieves the objectives of

- providing relevant, reliable, and timely information about the design, implementation, and operation of the SOQM, and
- enabling the firm to take appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis.

Policy or procedure	Note, Tip, or Warning
<p>Policy: The firm has a monitoring and remediation process designed to provide relevant, reliable, and timely information about the design, implementation, and operation of the SOQM and enable the firm to take appropriate actions to respond to identified deficiencies, so deficiencies are remediated on a timely basis. (QM sec. 10, par. .36)</p>	
<p>Policy: I accept operational responsibility for the firm’s monitoring and remediation process. (QM sec. 10, par. .21c(ii))</p> <p>The firm (for example, the managing partner) determines that the QM partner and all others responsible for conducting monitoring and remediation procedures (QM sec. 10, par. .22)</p> <ul style="list-style-type: none"> • have appropriate experience, knowledge, influence, and authority within the firm and sufficient time to fulfill their assigned responsibility, • understand their assigned roles and that they are accountable for fulfilling them, • have a direct line of communication to the managing partner, • have no history of limitations or restrictions on their ability to practice public accounting, and • have not acted as engagement partner on one or more materially non-conforming engagements that were uncovered through peer review, monitoring, or regulatory inspection. 	<p>NOTE: Statement on Quality Management Standards (SQMS) No. 1 requires individuals with operational responsibilities for the SOQM (for example, the QM partner) to possess the first three bullet points, but firms may consider additional qualities when assigning roles and responsibilities.</p>
<p>The QM partner is responsible for determining that the firm’s QM policies and procedures and its methodologies remain relevant and adequate. Factors that may be considered include the following:</p> <ul style="list-style-type: none"> • External factors <ul style="list-style-type: none"> – Changes in professional standards or other regulatory requirements applicable to the firm’s practice – Changes in applicable AICPA membership requirements • Internal indicators <ul style="list-style-type: none"> – Mergers and divestitures of portions of the practice – Results of previous monitoring activities – Results of inspections and peer reviews – Review of litigation and regulatory enforcement actions against the firm and its personnel – Changes in firm operations and services 	<p>NOTE: Examples of changes in professional standards that may result in a need to revise QM policies and procedures are changes to the AICPA Code of Professional Conduct.</p>

Policy or procedure	Note, Tip, or Warning
<p>At least annually, the QM partner performs, or selects an individual or team to perform, monitoring activities, including inspections, on the firm's SOQM. The QM partner uses criteria established by the firm to determine that individuals responsible for performing monitoring activities have (See paragraph .40 of QM section 10)</p> <ul style="list-style-type: none"> • the competence and capabilities, including sufficient time, to perform the monitoring activities effectively.; and • objectivity, based on the premise that objectivity is enhanced when engagement team members or the EQ reviewer of an engagement are not involved in performing monitoring activities related to that engagement. 	
<p>Policy: The firm designs and performs monitoring activities that are sufficiently comprehensive to provide a basis for the identification of deficiencies. (QM sec. 10, par. .37)</p>	
<p>The firm determines the nature, timing, and extent of the monitoring activities considering the following: (QM sec. 10, par. .38)</p> <ul style="list-style-type: none"> • The reasons for the assessments given to the quality risks • The design of the responses • The design of the firm's risk assessment process and monitoring and remediation process • Changes in the SOQM • The results of the firm's evaluations of each engagement • The results of previous monitoring activities • Other relevant information, including the results of both internal and external inspections 	<p>TIP: Many firms perform their annual inspection at the same time of the year as their peer review is performed. Peer review is not a substitute for all monitoring activities. However, a firm may leverage inspections performed by peer review for some or all engagements for the period covered by the peer review. Firms will need to work with their peer reviewers to align the timing of the results of peer review inspections with the timing of the firm's evaluation of their SOQM.</p>
<p>In accordance with the membership requirements of the AICPA Governmental Audit Quality Center and the AICPA Employee Benefit Plan Audit Quality Center, the engagement letter covering the firm's peer review will require that the governmental audits and Employee Retirement Income Security Act (ERISA) employee benefit plan audits selected for review during the firm's peer review are reviewed by someone who is employed by a member firm of the respective center. Also, information relative to the firm's most recently accepted peer review is available to the public in accordance with the membership requirements of the respective centers.</p>	

Policy or procedure	Note, Tip, or Warning
<p>The QM partner (and the team or designated individual) plans the annual monitoring activities to be performed. Monitoring activities include review of engagements and engagement partners that represent a reasonable cross-section of the firm's accounting and auditing practice using the following criteria <i>[specify criteria, which could include, but are not limited to, the following]</i>:</p> <ul style="list-style-type: none"> Engagements required to be selected during peer review (under Government Auditing Standards, ERISA, FDIC Improvement Act financial institutions, and examinations of service organizations [SOC 1® and SOC 2® engagements]) Specialized industries with emphasis given to high-risk engagements Initial engagements The tenure and experience of engagement partners The types of engagements performed by the firm, and the extent of the firm's experience in performing the type of engagement The types of entities for which engagements are undertaken <ul style="list-style-type: none"> Entities operating in emerging industries Entities operating in industries associated with a high level of complexity or judgment Entities operating in an industry new to the firm An appropriate cross-section of the firm's auditing and accounting partners, taking into account partners who have had negative results in the prior inspections or peer reviews and partners who have specialties other than accounting and auditing, but still service accounting and auditing clients The results of the firm's evaluations of each engagement partner's commitment to quality Complaints or allegations about an engagement partner Engagements from a merged-in practice SEC registrants and other engagements performed in accordance with PCAOB standards Engagements with areas that have been identified as findings in other reviews (that is, PCAOB, peer review, or prior internal inspection) 	<p>NOTE: It is a requirement that the inspection of at least one completed engagement for each engagement partner is performed on a cyclical basis determined by the firm. (For examples of how to apply a cyclical basis for inspection, see paragraph .A165 of QM section 10)</p> <p>TIP: The most effective monitoring focuses on areas of high risk (the risk that the firm isn't meeting professional standards or its own QM policies and procedures).</p> <p>WARNING: Identifying a cross- section of the firm's practice requires properly identifying all the types of engagements the firm performs. Accordingly, the firm needs sufficient detail to track its engagement population, for example, a time and billing system that separately identifies an employee benefit plan audit performed in conjunction with the employer audit. This also has implications for document retention and peer review.</p> <p>WARNING: Remember — you don't know what you don't know. If you are new to an industry, or if very few people in the firm have experience in an industry or technical area, hiring an external inspector to perform all or some inspection procedures may be beneficial.</p>
<p>The selected engagements are reviewed for compliance with the firm's policies and procedures.</p>	
<p>When deficiencies are identified in engagements, the QM partner considers the need to expand the selection of engagements to assist in the evaluation of the severity and pervasiveness of identified deficiencies. In addition to engagement inspection and reviews, the firm's monitoring activities include performing appropriate tests of compliance with the firm's policies and procedures on a sample basis. The monitoring activities include the following:</p> <ul style="list-style-type: none"> Assessing the appropriateness, reliability and suitability of the firm's guidance materials and practice aids, such as audit programs, forms and checklists, and determining whether they reflect recent professional pronouncements. This assessment includes soliciting comments from professional personnel as to the effectiveness of practice aids and tools. Issuing guidance regarding new professional standards, regulatory requirements, and related changes to firm policy. 	<p>TIP: For small firms, this can be done by providing information at staff meeting</p>

Policy or procedure	Note, Tip, or Warning
<ul style="list-style-type: none"> • Interviewing personnel at all professional management and staff levels to obtain information about operating procedures and assess their understanding of the firm's QM policies and procedures and implementation thereof. • Reviewing correspondence regarding the resolution of independence and client acceptance matters within the practice office. • Reviewing the resolution of matters reported by professional personnel regarding independence to determine that matters have been appropriately considered and resolved. 	
<ul style="list-style-type: none"> • Reviewing summaries of CPE records for a sample of personnel to track compliance with the requirements of the AICPA and other regulatory bodies (such as the Government Accountability Office [GAO] and the Office of Management and Budget [OMB]), as well as the firm's CPE requirements. 	<p>NOTE: This procedure encompasses reviewing both individual personnel's compliance and the firm's tracking of that compliance.</p>
<ul style="list-style-type: none"> • Reviewing other administrative and personnel records pertaining to the QM objectives, such as <ul style="list-style-type: none"> – personnel evaluations, including documentation of hiring and advancement decisions, and – participants' evaluations of practice office training programs. Reviewing — or designating a management-level individual to be responsible for reviewing — professional development activities to determine whether they are appropriate, effective, and meet the needs of the firm. • Soliciting information from the firm's personnel, either during staff meetings or through interviews of selected professional personnel, regarding the effectiveness of training programs, including in-house training programs. • Periodically reviewing the process for personnel evaluation and counseling to ascertain the following: <ul style="list-style-type: none"> – Whether procedures for evaluation and documentation are being followed on a timely basis 	
<ul style="list-style-type: none"> – That personnel decisions are consistent with evaluations – Whether personnel who have been promoted have achieved the applicable requirements for advancement 	<p>NOTE: As the firm's personnel increase in number, the need for more formal procedures also increases.</p>
<ul style="list-style-type: none"> • Determining that recognition is given to outstanding performance 	
<ul style="list-style-type: none"> • Considering whether the firm's professional development programs should be revised, based on the results of the firm's inspection or peer review, and recommending revisions. 	<p>NOTE: Professional development activities include the plan for both the firm and each individual to gain the skills, competencies, and knowledge necessary for the firm's practice.</p>
<ul style="list-style-type: none"> • Inspecting documentation and contracts with the firm's service providers to evaluate if the firm complied with relevant policies and procedures. • Checking and evaluating IT applications to evaluate if they are operating as intended and are fit for purpose. 	

Policy or procedure	Note, Tip, or Warning
<p>Policy: The firm evaluates findings to determine whether deficiencies exist, including within the monitoring and remediation process. (QM sec. 10, par. .41)</p>	<p>NOTE: When discussing the severity of issues with controls, the AICPA auditing, attestation, and accounting and review services standards use the terms <i>deficiency</i>, <i>significant deficiency</i>, and <i>material weakness</i>, whereas the peer review standards use the terms <i>finding</i>, <i>deficiency</i>, and <i>significant deficiency</i>. The use of the terms deficiency and significant deficiency in QM section 10 and this practice aid is consistent with the use in the AICPA auditing, attestation, and accounting and review services standards, adapted as necessary in the circumstances</p> <p>TIP: See this helpful Q&A Issues in Peer Review and Firm Systems of Quality Management for additional discussion.</p>
<p>The firm evaluates the severity and pervasiveness of identified deficiencies by (QM sec. 10, par. .42)</p> <ul style="list-style-type: none"> • investigating root causes of the identified deficiencies. • evaluating the effect of the identified deficiencies, individually and in aggregate, on the SOQM. 	<p>TIP: Using a root cause analysis to evaluate deficiencies is a new requirement and will require your firm to take time to develop procedures to understand the underlying factors creating a deficiency (root cause). The nature and severity of an identified deficiency will influence the rigor of the procedures used to understand why the deficiency happened or how the situation that created the deficiency developed. The firm may also consider why deficiencies did not arise in other circumstances with similar characteristics. (See paragraphs .A181–.A185 of QM section 10)</p>
<p>For each engagement reviewed, the monitoring team (or individual) is responsible for</p> <ul style="list-style-type: none"> • identifying and summarizing the deficiencies noted, and • discussing the results of the inspection or review with the engagement partners and other appropriate personnel responsible for each of the engagements selected for review and determining whether any remedial action needs to be taken or improvements made with respect to those specific engagements. 	
<p>The firm designs and implements remedial actions to address identified deficiencies that are responsive to the results of the root cause analysis. (QM sec. 10, par. .43)</p>	
<p>The QM partner evaluates whether the remedial actions</p> <ul style="list-style-type: none"> • are appropriately designed to address the identified deficiencies and their related root causes and determines that they have been implemented. • implemented to address previously identified deficiencies are effective. (QM section 10, par. .44) 	

Policy or procedure	Note, Tip, or Warning
<p>If this evaluation indicates that the remedial actions are not appropriately designed and implemented or are not effective, the QM partner takes action to determine that the remedial actions are modified so they are effective. (QM sec. 10, par. .45)</p>	
<p>Recommendations for appropriate remedial actions include one or more of the following:</p> <ul style="list-style-type: none"> • Taking appropriate corrective action in relation to an individual engagement or member of personnel • The communication of the findings to those responsible for training and professional development • Changes to the QM policies and procedures • Disciplinary action against those who fail to comply with the policies and procedures of the firm, especially those who do so repeatedly. 	<p>NOTE: Deficiencies may indicate a lack of due care or a lack of competency in various areas, and remedial actions should be responsive.</p>
<p>When the results of monitoring activities (through firm monitoring, peer review or regulatory inspection) indicate that a report may be inappropriate or that procedures were omitted during the performance of the engagement, the firm (QM sec. 10, par. .46.)</p> <ul style="list-style-type: none"> • determines what further action is appropriate to comply with relevant professional standards and applicable legal and regulatory requirements; • considers whether to obtain legal advice; and • takes and documents the appropriate action. 	<p>NOTE: In such circumstances for audit engagements, <i>AU-C section 560, Subsequent Events and Subsequently Discovered Facts</i>, and <i>AU-C section 585, Consideration of Omitted Procedures After the Report Release Date</i>,¹ are applicable.</p>
<p>The QM partner communicates on a timely basis [<i>identify period, at least annually</i>] to the managing partner (a) a description of the monitoring activities performed; (b) the identified deficiencies, including their severity and pervasiveness; and (c) the remedial actions to address the identified deficiencies. (QM sec. 10, par. .47)</p>	
<p>The firm communicates on a timely basis [<i>identify period, at least annually</i>] to engagement teams and other individuals assigned activities within the SOQM to enable them to take prompt and appropriate action in accordance with their responsibility for (a) the monitoring activities performed; (b) the identified deficiencies, including their severity and pervasiveness; and (c) the remedial actions to address the identified deficiencies. (QM sec. 10, par. .48)</p>	
<p>The partners review the recommended remedial actions and reach final conclusions regarding the actions to be taken.</p> <p>[<i>In firms with multiple practice groups:</i>] The practice group responds regarding the specific remedial actions or steps to be taken to improve compliance with the firm's policies and procedures and professional standards.</p>	
<p>The QM partner is responsible for documenting the implementation of specific remedial actions or steps based upon the results of the monitoring and remediation process.</p>	

¹ All AT-C sections can be found in AICPA *Professional Standards*.

Policy or procedure	Note, Tip, or Warning
<p>The managing partner evaluates and concludes one of the following on the effectiveness of the SOQM at least annually. (QM sec. 10, par. .55)</p> <ol style="list-style-type: none"> The SOQM provides the firm with reasonable assurance that the objectives of the SOQM are being achieved. Except for matters related to identified deficiencies that have a severe but not pervasive effect on the design, implementation, and operation of the SOQM, the SOQM provides the firm with reasonable assurance that the objectives of the SOQM are being achieved. The SOQM does not provide the firm with reasonable assurance that the objectives of the SOQM are being achieved. 	
<p>If the managing partner concludes there are identified deficiencies or that the SOQM does not provide the firm with reasonable assurance that the objectives of the SOQM are achieved, the firm (QM sec. 10, par. .56)</p> <ul style="list-style-type: none"> takes prompt and appropriate action. communicates to <ul style="list-style-type: none"> engagement teams and other appropriate individuals to the extent that it is relevant to their responsibilities, and external parties in accordance with the firm's policies and procedures. 	
<p>Periodically [<i>specify the period—for example, at least annually or at the conclusion of engagements that last at least three weeks</i>], the firm reviews performance evaluations with the managing partner and QM partner, which take into account the evaluation of the SOQM. (QM sec. 10, par. .57)</p>	
<p>The QM partner may identify the need to do the following:</p> <ul style="list-style-type: none"> Revise policies and procedures related to the other components of the SOQM because they are ineffective or inappropriately designed Improve compliance with firm policies and procedures related to the other components of the SOQM 	
<p>The firm communicates in training programs, meetings, and firm policy correspondence the need for changes and improved compliance with the SOQM.</p>	
<p>Policy: The firm prepares documentation of its SOQM that is sufficient to achieve the following: (QM section 10, par. .58)</p> <ul style="list-style-type: none"> Support a consistent understanding of the SOQM by personnel, including an understanding of their roles and responsibilities regarding the SOQM and performing engagements. Support the consistent implementation and operation of the responses. Provide evidence of the design, implementation, and operation of the responses to support the managing partner's evaluation of the SOQM. 	

Policy or procedure	Note, Tip, or Warning
<p>The firm's documentation of its SOQM includes the following: (QM sec. 10, par. .59)</p> <ul style="list-style-type: none"> • Identification of the managing partner and QM partner • The firm's quality objectives and quality risks • A description of the responses and how the firm's responses address the quality risks • Regarding the monitoring and remediation process <ul style="list-style-type: none"> – evidence of the monitoring activities performed – the evaluation of findings, and identified deficiencies and their related root causes – remedial actions to address identified deficiencies and the evaluation of the design and implementation of such remedial actions, and – communications about monitoring and remediation • The conclusions reached based on the evaluation of the SOQM and the basis for that conclusion. 	<p>TIP: The results of the monitoring process and related remediation efforts may include revisions and updates to the quality objectives, quality risks, and quality responses. Monitoring acts as a feedback to the SOQM so the SOQM can be enhanced and tailored based on the firm's evolving risks and changing circumstances.</p>
<p>The firm documents its monitoring and remediation process of the QM system. Documentation is provided through the firm's summary monitoring report, electronic databases, manual notes, checklists, and forms.</p>	
<p>Documentation addresses the following:</p> <ul style="list-style-type: none"> • Evidence of the monitoring activities performed, including a description of the monitoring activities performed to review and test compliance with firm quality management policies and procedures relating to all of the components of quality management, such as <ul style="list-style-type: none"> – review of the firm's professional library and practice aids to determine that they are appropriate and up to date, and – interviews of a sample of personnel regarding the effectiveness of the firm's professional development programs • The evaluation of findings, and identified deficiencies and their related root causes • Recommended remedial actions that are designed to prevent the recurrence of the deficiency to address identified deficiencies and the evaluation of the design and implementation of such remedial actions • Communications about monitoring and remediation • The conclusions reached based on the evaluation of the system and the basis for that conclusion 	
<p>Policy: The firm retains documentation that provides evidence of the design, implementation, and operation of the SOQM for an appropriate period of time. (QM sec. 10, par. .61)</p>	
<p>The firm retains monitoring and remediation documentation for a time sufficient to allow those monitoring the QM system, including peer reviewers, to evaluate the firm's compliance with its system. Outside of other legal or regulatory requirements, the firm generally retains such documentation until the next peer review report has been completed.</p>	

Policy or procedure	Note, Tip, or Warning
<p><i>[In firms that are members of a network:]</i></p> <p>If the firm is a member of a network in which the network performs monitoring activities relating to the firm's SOQM, the firm (QM sec. 10, par. .51)</p> <ul style="list-style-type: none"> • determines the effect of the monitoring activities performed by the network on the nature, timing, and extent of the firm's monitoring activities, • determines the firm's responsibilities in relation to the monitoring activities, and • obtains the results of the monitoring activities from the network in a timely manner. 	
<p>If the firm is a member of a network that undertakes monitoring activities across network firms, the firm</p> <ul style="list-style-type: none"> • understands the overall scope of the monitoring activities and understands how the network will communicate the results of its monitoring activities • at least annually, obtain results of the monitoring activities across network firms, and <ul style="list-style-type: none"> – communicates the information to engagement teams and other individual assigned activities within the SOQM, and – considers the effect of the information on the firm's SOQM. (QM sec. 10, par. .52) 	
<p>If the firm is a member of a network firm and the firm identifies a deficiency in the network requirements, the firm (QM sec. 10, par. .53)</p> <ul style="list-style-type: none"> • communicates to the network relevant information about the identified deficiency, and • designs and implement appropriate remedial actions. 	

Appendix — QM Section 10

A Firm's System of Quality Management

Statements on Quality Management Standards

Statements on Quality Management Standards (previously titled Statements on Quality Control Standards) are issued by the Auditing Standards Board, the senior technical body of the AICPA designated to issue pronouncements on auditing, attestation, and quality control matters. The "Compliance With Standards Rule" (ET sec. 1.310.001) of the AICPA Code of Professional Conduct requires compliance with these standards when firms perform auditing and accounting services for a nonissuer.

(Supersedes SQCS No. 8.)

Source: SQMS No. 1; SQMS No. 3.

Systems of quality management in compliance with this section are required to be designed and implemented by December 15, 2025, and the evaluation of the system of quality management required by [paragraphs .54–.55](#) is required to be performed within one year following December 15, 2025.

Introduction

Scope of This Section

- .01** This section deals with a firm's responsibilities to design, implement, and operate a system of quality management for its accounting and auditing practice.
- .02** Engagement quality reviews form part of the firm's system of quality management and
 - a. this section addresses the firm's responsibility to establish policies or procedures addressing engagements that are required to be subject to engagement quality reviews.
 - b. [section 20](#), *Engagement Quality Reviews*, deals with the appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review.
- .03** Other professional standards include requirements for engagement partners and other engagement team members regarding quality management at the engagement level. For example, Statement on Auditing Standards (SAS) No. 146, *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards* (AU-C sec. 220), deals with the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial statements and the related responsibilities of the engagement partner. Other professional standards, including AT-C section 105, *Concepts Common to All Attestation Engagements*, and AR-C section 60, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services*, also establish requirements for the engagement partner for the management of quality at the engagement level.
- .04** This section is to be read in conjunction with the AICPA Code of Professional Conduct (AICPA code) and other relevant ethical requirements. Law, regulation, or relevant ethical requirements may establish responsibilities for the firm's management of quality beyond those described in this section. (Ref: [par. .A1](#))
- .05** This section applies to audit and attestation engagements performed by a firm in accordance with *Government Auditing Standards*. This section does not apply to government audit organizations. Instead, those government audit organizations are subject to the quality control and assurance requirements of *Government Auditing Standards*.
- .06** This section applies to all firms that perform any engagement included in a firm's accounting and auditing practice. The system of quality management that is established in accordance with the requirements of this section enables the consistent performance by the firm of all such engagements.

The Firm's System of Quality Management

.07 A system of quality management operates in a continual and iterative manner and is responsive to changes in the nature and circumstances of the firm and its engagements. It does not operate in a linear manner. However, for the purposes of this section, a system of quality management addresses the following eight components: (Ref: [par. .A2](#))

- a. The firm's risk assessment process
- b. Governance and leadership
- c. Relevant ethical requirements
- d. Acceptance and continuance of client relationships and specific engagements
- e. Engagement performance
- f. Resources
- g. Information and communication
- h. The monitoring and remediation process

.08 This section requires the firm to apply a risk-based approach in designing, implementing, and operating the components of the system of quality management in an interconnected and coordinated manner such that the firm proactively manages the quality of engagements performed by the firm. (Ref: [par. .A3](#))

.09 The risk-based approach is embedded in the requirements of this section through the following:

- a. *Establishing quality objectives.* The quality objectives established by the firm consist of objectives in relation to the components of the system of quality management that are to be achieved by the firm. The firm is required to establish the quality objectives specified by this section and any additional quality objectives considered necessary by the firm to achieve the objectives of the system of quality management.
- b. *Identifying and assessing risks to the achievement of the quality objectives* (referred to in this section as *quality risks*). The firm is required to identify and assess quality risks to provide a basis for the design and implementation of responses.
- c. *Designing and implementing responses to address the quality risks.* The nature, timing, and extent of the firm's responses to address the quality risks are based on, and responsive to, the reasons for the assessments given to the quality risks.

.10 This section requires that, at least annually, the individual or individuals assigned ultimate responsibility and accountability for the system of quality management, on behalf of the firm, evaluate the system of quality

management and conclude whether the system of quality management provides the firm with reasonable assurance that the objectives of the system, stated in [paragraph .15a–b](#), are being achieved. (Ref: [par. .A4](#))

Scalability

.11 In applying a risk-based approach, the firm is required to take into account

- a. the nature and circumstances of the firm, and
- b. the nature and circumstances of the engagements performed by the firm.

Accordingly, the design of the firm's system of quality management — in particular, the complexity and formality of the system — will vary. For example, a firm that performs different types of engagements for a wide variety of entities, such as audits of specialized industries or group audits for multinational entities, will likely need to have a more complex and formalized system of quality management and supporting documentation than a firm that performs only reviews of financial statements or compilation engagements.

Networks and Service Providers

.12 This section addresses the firm's responsibilities when the firm

- a. belongs to a network, and the firm complies with network requirements or uses network services in the system of quality management or in performing engagements, or
- b. uses resources from a service provider in the system of quality management or in performing engagements.

Even when the firm complies with network requirements or uses network services or resources from a service provider, the firm is responsible for its system of quality management.

Authority of This Section

.13 [Paragraph .15](#) contains the objective of the firm in following this section. This section contains the following: (Ref: [par. .A5](#))

- a. Requirements designed to enable the firm to meet the objective in [paragraph .15](#) (Ref: [par. .A6](#))
- b. Related guidance in the form of application and other explanatory material (Ref: [par. .A7](#))
- c. Introductory material that provides context relevant to a proper understanding of this section
- d. Definitions (Ref: [par. .A8](#))

Effective Date

- .14** Systems of quality management in compliance with this section are required to be designed and implemented by December 15, 2025, and the evaluation of the system of quality management required by [paragraphs .54–.55](#) is required to be performed within one year following December 15, 2025.

Objective

- .15** The objective of the firm is to design, implement, and operate a system of quality management for engagements performed by the firm in its accounting and auditing practice that provides the firm with reasonable assurance that
- the firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements and conduct engagements in accordance with such standards and requirements, and
 - engagement reports issued by the firm are appropriate in the circumstances.
- .16** The public interest is served by the consistent performance of quality engagements. The design, implementation, and operation of the system of quality management enables the consistent performance of quality engagements by providing the firm with reasonable assurance that the objectives of the system of quality management, stated in [paragraph .15a–b](#), are achieved. Quality engagements are achieved through planning and performing engagements and reporting on them in accordance with professional standards and applicable legal and regulatory requirements. Achieving the objectives of those standards and complying with the requirements of applicable law or regulation involves exercising professional judgment and, when applicable to the type of engagement, maintaining professional skepticism.

Definitions

- .17** For purposes of the QM sections, the following terms have the meanings attributed as follows:

Accounting and auditing practice. A practice that performs engagements covered by this section, which are audit, attestation, review, compilation, 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. (Ref: [par. .A9](#))

Deficiency in the firm’s system of quality management (referred to as deficiency in this section). This exists when (Ref: [par. .A10](#) and [.A174–.A175](#))

- a quality objective required to achieve the objective of the system of quality management is not established;
- a quality risk, or combination of quality risks, is not identified or properly assessed; (Ref: [par. .A11](#))
- a response, or combination of responses, does not reduce to an acceptably low level the likelihood of a related quality risk occurring because the responses are not properly designed, implemented, or operating effectively; or
- another aspect of the system of quality management is absent, or not properly designed, implemented, or operating effectively, such that a requirement of this section has not been addressed. (Ref: [par. .A12–.A13](#))

Engagement documentation. The record of work performed, results obtained, and conclusions the practitioner reached (terms such as *working papers* or *work papers* are sometimes used).

Engagement partner. The partner or other 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.

Engagement quality review. An objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon performed by the engagement quality reviewer and completed before the engagement report is released.

Engagement quality reviewer. A partner, other individual in the firm, or an external individual appointed by the firm to perform the engagement quality review.

Engagement team. All partners and staff performing the engagement, and any other individuals who perform procedures on the engagement, excluding an external specialist¹ and internal auditors who provide direct assistance on an engagement. (Ref: [par. .A14](#))

External inspections. Inspections or investigations, undertaken by an external oversight authority, related to the firm’s system of quality management or engagements performed by the firm. (Ref: [par. .A15](#))

¹ Paragraph .06 of AU-C section 620, *Using the Work of an Auditor’s Specialist*, defines the term auditor’s specialist.

Findings (in relation to a system of quality management). Information about the design, implementation, and operation of the system of quality management that has been accumulated from the performance of monitoring activities, external inspections, and other relevant sources, which indicates that one or more deficiencies may exist. (Ref: [par. .A16–.A18](#))

Firm. A form of organization permitted by law or regulation whose characteristics conform to resolutions of the Council of the AICPA and that is engaged in public practice. (Ref: [par. .A19](#))

Inspection. Inspection is an evaluation of the adequacy of aspects of the firm's quality management policies and procedures, its personnel's understanding of those policies and procedures, and the extent of the firm's compliance with them.

Network. As defined in "Definitions" (ET sec. 0.400) in the AICPA code, an association of entities that includes one or more firms. (Ref: [par. .A20](#))

Network firm. As defined in "Definitions" in the AICPA code, a firm or other entity that belongs to a network. References to a *network firm* are to be read hereafter as "another firm or entity that belongs to the same network as the firm."

Partner. Any individual with authority to bind the firm with respect to the performance of a professional services engagement. For purposes of this definition, partner may include an employee with this authority who has not assumed the risks and benefits of ownership. Firms might use different titles to refer to individuals with this authority.

Personnel. Partners and staff in the firm.
(Ref: [par. .A21–.A22](#))

Professional judgment. The application of relevant training, knowledge, and experience, within the context of professional standards, in making informed decisions about the courses of action that are appropriate in the design, implementation, and operation of the firm's system of quality management.

Professional standards. Standards promulgated by the ASB or ARSC under the "General Standards Rule" or the "Compliance With Standards Rule" of the AICPA code or other standard-setting bodies that set auditing and attest standards applicable to the engagement being performed and relevant ethical requirements.

Quality objectives. The desired outcomes in relation to the components of the system of quality management to be achieved by the firm.

Quality risk. A risk that has a reasonable possibility of

- occurring, and
- individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives.

Reasonable assurance. In the context of the QM sections, a high, but not absolute, level of assurance.

Relevant ethical requirements. Principles of professional ethics and ethical requirements to which the firm, engagement team, engagement quality reviewer, and other firm personnel are subject when undertaking engagements in the firm's accounting and auditing practice that consist of the AICPA code together with rules of applicable state boards of accountancy and applicable regulatory agencies that are more restrictive. (Ref: [par. .A23–.A24](#) and [.A64](#))

Response (in relation to a system of quality management). Policies or procedures designed and implemented by the firm to address one or more quality risks. (Ref: [par. .A25–.A27](#) and [.A52](#))

- *Policies* are statements of what should, or should not, be done to address quality risks. Such statements may be documented, explicitly stated in communications, or implied through actions and decisions.
- *Procedures* are actions to implement policies.

Service provider (in the context of this section). An individual or organization external to the firm that provides a resource that is used in the system of quality management or in performing engagements. Service providers exclude the firm's network, other network firms, or other structures or organizations in the network. (Ref: [par. .A28](#) and [.A110](#))

Staff. Professionals, other than partners, including any specialists the firm employs.

System of quality management. A system designed, implemented, and operated by a firm to provide the firm with reasonable assurance that

- a. the firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
- b. engagement reports issued by the firm are appropriate in the circumstances.

Requirements

Applying and Complying With Relevant Requirements

- .18 The firm should comply with each requirement of this section unless the requirement is not relevant to the firm because of the nature and circumstances of the firm or its engagements. (Ref: [par. .A29](#))
- .19 The individual or individuals assigned ultimate responsibility and accountability for the firm's system of quality management, and the individual or individuals assigned operational responsibility for the firm's system of quality management, should have an understanding of this section, including the application and other explanatory material, to understand the objective of this section and to apply its requirements properly.

System of Quality Management

- .20 The firm should design, implement, and operate a system of quality management. In doing so, the firm should exercise professional judgment, taking into account the nature and circumstances of the firm and its engagements. The governance and leadership component of the system of quality management establishes the environment that supports the design, implementation, and operation of the system of quality management. (Ref: [par. .A30–.A31](#))

Responsibilities

- .21 The firm should assign (Ref: [par. .A32–.A36](#))
 - a. ultimate responsibility and accountability for the system of quality management to the firm's CEO or the firm's managing partner (or equivalent) or, if appropriate, the firm's managing board of partners (or equivalent);
 - b. operational responsibility for the system of quality management; and
 - c. operational responsibility for specific aspects of the system of quality management, including
 - i. compliance with independence requirements, and (Ref: [par. .A37](#))
 - ii. the monitoring and remediation process.
- .22 In assigning the roles in paragraph .21, the firm should determine that the individual or individuals (Ref: [par. .A38](#))
 - a. have the appropriate experience, knowledge, influence, and authority within the firm and sufficient time to fulfill their assigned responsibility, and (Ref: [par. .A39](#))
 - b. understand their assigned roles and that they are accountable for fulfilling them.
- .23 The firm should determine that the individual or individuals assigned operational responsibility for the system of quality management, compliance with independence requirements, and the monitoring and remediation process have a direct line of communication to the individual or individuals assigned ultimate responsibility and accountability for the system of quality management.

The Firm's Risk Assessment Process

- .24 The firm should design and implement a risk assessment process to establish quality objectives, identify and assess quality risks, and design and implement responses to address the quality risks. (Ref: [par. .A40–.A42](#))
- .25 The firm should establish the quality objectives specified by this section and any additional quality objectives considered necessary by the firm to achieve the objectives of the system of quality management. (Ref: [par. .A43–.A45](#))
- .26 The firm should identify and assess quality risks to provide a basis for the design and implementation of responses. In doing so, the firm should do the following:
 - a. Obtain an understanding of the conditions, events, circumstances, actions, or inactions that may adversely affect the achievement of the quality objectives, including the following: (Ref: [par. .A46–.A48](#))
 - i. With respect to the nature and circumstances of the firm, those relating to
 - 1. the complexity and operating characteristics of the firm;
 - 2. the strategic and operational decisions and actions, business processes, and business model of the firm;
 - 3. the characteristics and management style of leadership;
 - 4. the resources of the firm, including the resources provided by service providers;
 - 5. law, regulation, professional standards, and the environment in which the firm operates; and
 - 6. in the case of a firm that belongs to a network, the nature and extent of the network requirements and network services, if any
 - ii. With respect to the nature and circumstances of the engagements performed by the firm, those relating to
 - 1. the types of engagements performed by the firm and the reports to be issued, and
 - 2. the types of entities for which such engagements are undertaken

- b. Take into account how, and the degree to which, the conditions, events, circumstances, actions, or inactions in (a) may adversely affect the achievement of the quality objectives. (Ref: [par. .A49–.A50](#))
- .27** The firm should design and implement responses to address the quality risks in a manner that is based on, and responsive to, the reasons for the assessments given to the quality risks. The firm's responses should include the responses specified in paragraph .35. However, the responses specified in paragraph .35 alone are not sufficient to achieve the objectives of the system of quality management. (Ref: [par. .A51–.A53](#))
- .28** The firm should establish policies or procedures that are designed to identify information that indicates additional quality objectives, or additional or modified quality risks or responses, are needed due to changes in the nature and circumstances of the firm or its engagements. If such information is identified, the firm should consider the information and, when appropriate, (Ref: [par. .A54–.A55](#))
- a. establish additional quality objectives or modify additional quality objectives previously established by the firm; (Ref: [par. .A56](#))
 - b. identify and assess additional quality risks, modify the quality risks, or reassess the quality risks; or
 - c. design and implement additional responses or modify the responses.

Governance and Leadership

- .29** The firm should establish the following quality objectives that address the firm's governance and leadership, which establishes the environment that supports the system of quality management:
- a. The firm demonstrates a commitment to quality through a culture that exists throughout the firm, which recognizes and reinforces the following: (Ref: [par. .A57–.A58](#))
 - i. The firm's role in serving the public interest by consistently performing quality engagements
 - ii. The importance of professional ethics, values, and attitudes
 - iii. The responsibility of all personnel for quality relating to the performance of engagements or activities within the system of quality management and their expected behavior
 - iv. The importance of quality in the firm's strategic decisions and actions, including the firm's financial and operational priorities
 - b. Leadership is responsible and accountable for quality. (Ref: [par. .A59](#))
 - c. Leadership demonstrates a commitment to quality through its actions and behaviors. (Ref: [par. .A60](#))
 - d. The organizational structure and assignment of roles, responsibilities, and authority is appropriate to enable the design, implementation, and operation of the firm's system of quality management. (Ref: [par. .A32–.A35](#) and [.A61](#))
 - e. Resource needs, including financial resources, are planned for, and resources are obtained, allocated, or assigned in a manner that is consistent with the firm's commitment to quality. (Ref: [par. .A62–.A63](#))

Relevant Ethical Requirements

- .30** The firm should establish the following quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to independence: (Ref: [par. .A64–.A66](#) and [.A68](#))
- a. The firm and its personnel
 - i. understand the relevant ethical requirements to which the firm and the firm's engagements are subject, and (Ref: [par. .A23](#))
 - ii. fulfill their responsibilities in relation to the relevant ethical requirements to which the firm and the firm's engagements are subject.
 - b. Others, including the network, network firms, individuals in the network or network firms, or service providers, who are subject to the relevant ethical requirements to which the firm and the firm's engagements are subject
 - i. understand the relevant ethical requirements that apply to them, and (Ref: [par. .A23](#) and [.A67](#))
 - ii. fulfill their responsibilities in relation to the relevant ethical requirements that apply to them. (Ref: [par. .A68](#))

Acceptance and Continuance of Client Relationships and Specific Engagements

- .31** The firm should establish the following quality objectives that address the acceptance and continuance of client relationships and specific engagements:
- a. Judgments by the firm about whether to accept or continue a client relationship or specific engagement are appropriate based on the following:
 - i. Information obtained 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) that is sufficient to support such judgments (Ref: [par. .A69–.A74](#))

- ii. The firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements (Ref: [par. .A75–.A76](#))
- b. The financial and operational priorities of the firm do not lead to inappropriate judgments about whether to accept or continue a client relationship or specific engagement. (Ref: [par. .A77–.A78](#))

Engagement Performance

- .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](#))
 - b. The nature, timing, and extent of direction and supervision of engagement teams and review of the work performed is appropriate based on the nature and circumstances of the engagements and the resources assigned or made available to the engagement teams; the work performed by less experienced engagement team members is directed, supervised, and reviewed by suitably experienced engagement team members. (Ref: [par. .A80–.A81](#))
 - c. Engagement teams exercise appropriate professional judgment and, when applicable to the type of engagement, maintain professional skepticism. (Ref: [par. .A82](#))
 - d. Consultation on difficult or contentious matters is undertaken, and the conclusions agreed to are implemented. (Ref: [par. .A83–.A85](#))
 - e. Differences of opinion within the engagement team, or between the engagement team and the engagement quality reviewer or individuals performing activities within the firm's system of quality management, are brought to the attention of the firm and resolved. (Ref: [par. .A86](#))
 - f. Engagement documentation is assembled on a timely basis after the date of the engagement report and is appropriately maintained and retained to meet the needs of the firm and comply with law, regulation, relevant ethical requirements, and professional standards. (Ref: [par. .A87–.A89](#))

Resources

- .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](#))

Human Resources

- a. Personnel are hired, developed, and retained and have the competence and capabilities to (Ref: [par. .A92–.A94](#))
 - i. consistently perform quality engagements, including having knowledge or experience relevant to the engagements the firm performs, or
 - ii. perform activities or carry out responsibilities in relation to the operation of the firm's system of quality management.
- b. Personnel demonstrate a commitment to quality through their actions and behaviors, develop and maintain the appropriate competence to perform their roles, and are held accountable or recognized through timely evaluations, compensation, promotion, and other incentives. (Ref: [par. .A95–.A97](#))
- c. Individuals are obtained from external sources (that is, the network, another network firm, or a service provider) when the firm does not have sufficient or appropriate personnel to enable the operation of firm's system of quality management or performance of engagements. (Ref: [par. .A98](#))
- d. Engagement team members, including an engagement partner, who have appropriate competence and capabilities to consistently perform quality engagements, including being given sufficient time, are assigned to each engagement. (Ref: [par. .A92–.A93](#) and [.A99–.A101](#))
- e. Individuals who have appropriate competence and capabilities, including sufficient time, to perform such activities are assigned to perform activities within the system of quality management.

Technological Resources

- f. Appropriate technological resources are obtained or developed, implemented, maintained, and used to enable the operation of the firm's system of quality management and the performance of engagements. (Ref: [par. .A102–.A106](#) and [.A109](#))

Intellectual Resources

- g. Appropriate intellectual resources are obtained or developed, implemented, maintained, and used to enable the operation of the firm's system of quality management and the consistent performance of quality engagements, and such intellectual resources are consistent with professional standards and applicable legal and regulatory requirements, where applicable. (Ref: [par. .A107–.A109](#))

Service Providers

- h. Human, technological, or intellectual resources from service providers are appropriate for use in the firm's system of quality management and in performing engagements, taking into account the quality objectives in (d–g). (Ref: [par. .A110–.A115](#))

Information and Communication

.34 The firm should establish the following quality objectives that address obtaining, generating, or using information regarding the system of quality management and communicating information within the firm and to external parties on a timely basis to enable the design, implementation, and operation of the system of quality management: (Ref: [par. .A116](#))

- a. The information system identifies, captures, processes, and maintains relevant and reliable information that supports the system of quality management, whether from internal or external sources. (Ref: [par. .A117–.A119](#))
- b. The culture of the firm recognizes and reinforces the responsibility of personnel to exchange information with the firm and with one another. (Ref: [par. .A120](#))
- c. Relevant and reliable information is exchanged throughout the firm and with engagement teams, including the following: (Ref: [par. .A120](#))
 - i. Information is communicated to personnel and engagement teams, and the nature, timing, and extent of the information is sufficient to enable them to understand and carry out their responsibilities relating to performing activities within the system of quality management or engagements.
 - ii. Personnel and engagement teams communicate information to the firm when performing activities within the system of quality management or engagements.
- d. Relevant and reliable information is communicated to external parties, including the following:
 - i. Information is communicated by the firm to or within the firm's network or to service providers, if any, enabling the network or service providers to fulfill their responsibilities relating to the network requirements or network services or resources provided by them. (Ref: [par. .A121](#))
 - ii. Information is communicated externally when required by law, regulation, or professional standards or to support external parties' understanding of the system of quality management. (Ref: [par. .A122–.A123](#))

Specified Responses

- .35** In designing and implementing responses in accordance with paragraph .27, the firm should include the following responses: (Ref: [par. .A124](#))
- a. The firm establishes policies or procedures for
 - i. identifying, evaluating, and addressing threats to compliance with the relevant ethical requirements. (Ref: [par. .A125](#))
 - ii. identifying, communicating, evaluating, and reporting of any breaches of the relevant ethical requirements and appropriately responding to the causes and consequences of the breaches in a timely manner. (Ref: [par. .A126–.A127](#))
 - b. The firm obtains, at least annually, a documented confirmation of compliance with independence requirements from all personnel required by relevant ethical requirements to be independent.
 - c. The firm establishes policies or procedures for receiving, investigating, and resolving complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements or noncompliance with the firm's policies or procedures established in accordance with this section. (Ref: [par. .A128–.A129](#))
 - d. The firm establishes policies or procedures that address the following circumstances:
 - i. The firm becomes aware of information subsequent to accepting or continuing a client relationship or specific engagement that would have caused it to decline the client relationship or specific engagement had that information been known prior to accepting or continuing the client relationship or specific engagement. (Ref: [par. .A130–.A131](#))
 - ii. The firm is obligated by law or regulation to accept a client relationship or specific engagement. (Ref: [par. .A132–.A133](#))
 - e. The firm establishes policies or procedures that (Ref: [par. .A134–.A137](#))
 - i. address when it is appropriate to communicate with external parties about the firm's system of quality management, and (Ref: [par. .A138–.A140](#))
 - ii. address the information to be provided when communicating externally about the firm's system of quality management, including the nature, timing, and extent and appropriate form of communication. (Ref: [par. .A141–.A142](#))

- f. The firm establishes policies or procedures that address engagement quality reviews in accordance with [section 20](#) and requires an engagement quality review for the following:
 - i. Audits or other engagements for which an engagement quality review is required by law or regulation (Ref: [par. .A143](#))
 - ii. Audits or other engagements for which the firm determines that an engagement quality review is an appropriate response to address one or more quality risks (Ref: [par. .A144–.A147](#))

Monitoring and Remediation Process

- .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.
 - b. take appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis.

Designing and Performing Monitoring Activities

- .37** The firm should design and perform monitoring activities to provide a basis for the identification of deficiencies.
- .38** In determining the nature, timing, and extent of the monitoring activities, the firm should take the following into account: (Ref: [par. .A149–.A152](#))
 - a. The reasons for the assessments given to the quality risks
 - b. The design of the responses
 - c. The design of the firm's risk assessment process and monitoring and remediation process (Ref: [par. .A153–.A155](#))
 - d. Changes in the system of quality management (Ref: [par. .A156](#))
 - e. The results of previous monitoring activities, whether previous monitoring activities continue to be relevant in evaluating the firm's system of quality management and whether remedial actions to address previously identified deficiencies were effective (Ref: [par. .A157–.A158](#))
 - f. Other relevant information, including complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements or noncompliance with the firm's policies or procedures established in accordance with this section, information from external inspections, and information from service providers (Ref: [par. .A159–.A161](#))

- .39** The firm should include the inspection of completed engagements in its monitoring activities and should determine which engagements and engagement partners to select. In doing so, the firm should (Ref: [par. .A150](#) and [.A162–.A166](#))
 - a. take into account the matters in paragraph .38;
 - b. consider the nature, timing, and extent of other monitoring activities undertaken by the firm and the engagements and engagement partners subject to such monitoring activities; (Ref: [par. .A167–.A168](#)) and
 - c. select at least one completed engagement for each engagement partner on a cyclical basis determined by the firm.
- .40** The firm should establish policies or procedures that
 - a. require the individuals performing the monitoring activities to have the competence and capabilities, including sufficient time, to perform the monitoring activities effectively; and
 - b. address the objectivity of the individuals performing the monitoring activities, based on the premise that objectivity is enhanced when the engagement team members or the engagement quality reviewer of an engagement are not involved in performing any monitoring activities related to that engagement. (Ref: [par. .A169–.A173](#))

Evaluating Findings and Identifying Deficiencies

- .41** The firm should evaluate findings to determine whether deficiencies exist, including in the monitoring and remediation process. (Ref: [par. .A174–.A178](#))

Evaluating Identified Deficiencies

- .42** The firm should evaluate the severity and pervasiveness of identified deficiencies by (Ref: [par. .A177](#) and [.A179–.A180](#))
 - a. investigating the root causes of the identified deficiencies. In determining the nature, timing, and extent of the procedures to investigate the root causes, the firm should take into account the nature of the identified deficiencies and their possible severity. (Ref: [par. .A181–.A185](#))
 - b. evaluating the effect of the identified deficiencies, individually and in aggregate, on the system of quality management.

Responding to Identified Deficiencies

- .43** The firm should design and implement remedial actions to address identified deficiencies that are responsive to the results of the root cause analysis. (Ref: [par. .A186–.A188](#))

- .44** The individual or individuals assigned operational responsibility for the monitoring and remediation process should evaluate whether the remedial actions
- are appropriately designed to address the identified deficiencies and their related root causes and determine that they have been implemented.
 - implemented to address previously identified deficiencies are effective.
- .45** If the evaluation indicates that the remedial actions are not appropriately designed and implemented or are not effective, the individual or individuals assigned operational responsibility for the monitoring and remediation process should take appropriate action to determine that the remedial actions are appropriately modified such that they are effective.

Findings About a Particular Engagement

- .46** The firm should respond to circumstances in which findings indicate that there is an engagement for which required procedures were omitted during the performance of the engagement, or that the report issued may be inappropriate. The firm's response should include the following: (Ref: [par. .A189](#))
- Taking appropriate action to comply with relevant professional standards and applicable legal and regulatory requirements
 - When the report is considered to be inappropriate, considering the implications and taking appropriate action, including considering whether to obtain legal advice

Ongoing Communication Related to Monitoring and Remediation

- .47** The individual or individuals assigned operational responsibility for the monitoring and remediation process should communicate the following on a timely basis to the individual or individuals assigned ultimate responsibility and accountability for the system of quality management and the individual or individuals assigned operational responsibility for the system of quality management: (Ref: [par. .A190](#))
- A description of the monitoring activities performed
 - The identified deficiencies, including the severity and pervasiveness of such deficiencies
 - The remedial actions to address the identified deficiencies
- .48** The firm should communicate the matters described in [paragraph .47](#) to engagement teams and other individuals assigned activities within the system of quality management to enable them to take prompt and appropriate action in accordance with their responsibilities.

Network Requirements or Network Services

- .49** When the firm belongs to a network, the firm should understand the following, when applicable: (Ref: [par. .A20](#) and [.A191–.A193](#))
- The requirements established by the network regarding the firm's system of quality management, including requirements for the firm to implement or use resources or services designed or otherwise provided by or through the network (that is, network requirements)
 - Any services or resources provided by the network that the firm chooses to implement or use in the design, implementation, or operation of the firm's system of quality management (that is, network services)
 - The firm's responsibilities for any actions that are necessary to implement the network requirements or use network services (Ref: [par. .A194](#))

The firm remains responsible for its system of quality management, including professional judgments made in the design, implementation, and operation of the system of quality management. The firm should not allow compliance with the network requirements or use of network services to contravene the requirements of this section. (Ref: [par. .A20](#) and [par. .A195](#))

- .50** Based on the understanding obtained in accordance with [paragraph .49](#), the firm should
- determine how the network requirements or network services are relevant to, and are taken into account in, the firm's system of quality management, including how they are to be implemented. (Ref: [par. .A196](#))
 - whether and, if so, how the network requirements or network services need to be adapted or supplemented by the firm to be appropriate for use in its system of quality management. (Ref: [par. .A197–.A199](#))

Monitoring Activities Undertaken by the Network on the Firm's System of Quality Management

- .51** For circumstances in which the network performs monitoring activities relating to the firm's system of quality management, the firm should
- determine the effect of the monitoring activities performed by the network on the nature, timing, and extent of the firm's monitoring activities performed in accordance with [paragraphs .37–.39](#);
 - determine the firm's responsibilities in relation to the monitoring activities, including any related actions by the firm; and
 - as part of evaluating findings and identifying deficiencies in [paragraph .41](#), obtain the results of the monitoring activities from the network in a timely manner. (Ref: [par. .A200](#))

Monitoring Activities Undertaken by the Network Across the Network Firms

- .52** The firm should
- understand the overall scope of the monitoring activities undertaken by the network across the network firms, including monitoring activities to determine that network requirements have been appropriately implemented across the network firms, and how the network will communicate the results of its monitoring activities to the firm.
 - at least annually, obtain information from the network about the overall results of the network's monitoring activities across the network firms, if applicable, and (Ref: [par. .A201–.A203](#))
 - communicate the information to engagement teams and other individuals assigned activities within the system of quality management, as appropriate, to enable them to take prompt and appropriate action in accordance with their responsibilities, and
 - consider the effect of the information on the firm's system of quality management.

Deficiencies in Network Requirements or Network Services Identified by the Firm

- .53** If the firm identifies a deficiency in the network requirements or network services, the firm should (Ref: [par. .A204](#))
- communicate to the network relevant information about the identified deficiency, and
 - in accordance with [paragraph .43](#), design and implement remedial actions to address the effect of the identified deficiency in the network requirements or network services. (Ref: [par. .A205](#))

Evaluating the System of Quality Management

- .54** The individual or individuals assigned ultimate responsibility and accountability for the system of quality management should evaluate, on behalf of the firm, the system of quality management. The evaluation should be undertaken as of a point in time and performed at least annually. (Ref: [par. .A206–.A209](#))
- .55** Based on the evaluation, the individual or individuals assigned ultimate responsibility and accountability for the system of quality management should conclude, on behalf of the firm, one of the following: (Ref: [par. .A210](#) and [.A217](#))
- The system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved. (Ref: [par. .A211](#))

- Except for matters related to identified deficiencies that have a severe but not pervasive effect on the design, implementation, and operation of the system of quality management, the system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved. (Ref: [par. .A212](#))
- The system of quality management does not provide the firm with reasonable assurance that the objectives of the system of quality management are being achieved. (Ref: [par. .A212–.A216](#))

- .56** If the individual or individuals assigned ultimate responsibility and accountability for the system of quality management reaches the conclusion described in [paragraph .55b](#) or [.55c](#), the firm should do the following: (Ref: [par. .A218](#))
- Take prompt and appropriate action.
 - Communicate to
 - engagement teams and other individuals assigned activities within the system of quality management to the extent that it is relevant to their responsibilities, and (Ref: [par. .A219](#))
 - external parties in accordance with the firm's policies or procedures required by [paragraph .35e](#). (Ref: [par. .A220](#))

- .57** The firm should undertake periodic performance evaluations of the individual or individuals assigned ultimate responsibility and accountability for the system of quality management and the individual or individuals assigned operational responsibility for the system of quality management. In doing so, the firm should take into account the evaluation of the system of quality management. (Ref: [par. .A221–.A223](#))

Documentation

- .58** The firm should prepare documentation of its system of quality management that is sufficient to (Ref: [par. .A224–.A226](#))
- support a consistent understanding of the system of quality management by personnel, including an understanding of their roles and responsibilities with respect to the system of quality management and performing engagements.
 - support the consistent implementation and operation of the responses.
 - provide evidence of the design, implementation, and operation of the responses to support the evaluation of the system of quality management by the individual or individuals assigned ultimate responsibility and accountability for the system of quality management.

- .59** In preparing documentation, the firm should include the following:
- Identification of the individual or individuals assigned ultimate responsibility and accountability for the system of quality management and operational responsibility for the system of quality management
 - The firm's quality objectives and quality risks (Ref: [par. .A227](#))
 - A description of the responses and how the firm's responses address the quality risks
 - Regarding the monitoring and remediation process,
 - evidence of the monitoring activities performed;
 - the evaluation of findings, and identified deficiencies and their related root causes; and
 - remedial actions to address identified deficiencies and the evaluation of the design and implementation of such remedial actions
 - communications about monitoring and remediation
 - The conclusion reached pursuant to [paragraph .55](#) and the basis for that conclusion
- .60** The firm should document the matters in [paragraph .59](#) as they relate to network requirements or network services and the evaluation of the network requirements or network services in accordance with [paragraph .50b](#). (Ref: [par. .A228](#))
- .61** The firm should establish a period of time for the retention of documentation for the system of quality management that is sufficient to enable the firm and its peer reviewer to monitor the design, implementation, and operation of the firm's system of quality management or for a longer period if required by law or regulation.

Application and Other Explanatory Material

Scope of This Section (Ref: [par. .03-.04](#))

- .A1** The AICPA code establishes the fundamental principles of professional ethics, which include the obligation to act in a way that serves the public interest.² As indicated in [paragraph .16](#), in the context of engagement performance as described in this section, the consistent performance of quality engagements forms part of the obligation to act in the public interest.

² Paragraph .01 of ET section 0.300.030.

The Firm's System of Quality Management (Ref: [par. .07-.10](#))

- .A2** The firm may use different terminology or frameworks to describe the components of its system of quality management.
- .A3** Examples of the interconnected nature of the components include the following:
- The firm's risk assessment process sets out the process the firm is required to follow in implementing a risk-based approach across the system of quality management.
 - The governance and leadership component establishes the environment that supports the system of quality management.
 - The resources and information and communication components enable the design, implementation, and operation of the system of quality management.
 - The monitoring and remediation process is designed to monitor the entire system of quality management. The results of the monitoring and remediation process provide information that is relevant to the firm's risk assessment process.
 - There may be relationships between specific matters; for example, certain aspects of relevant ethical requirements are relevant to accepting and continuing client relationships and specific engagements.
- .A4** Reasonable assurance is obtained when the system of quality management reduces to an acceptably low level the risk that the objectives stated in [paragraph .15a-b](#) are not achieved. Reasonable assurance is not an absolute level of assurance because there are inherent limitations of a system of quality management. Such limitations include the fact that human judgment in decision making can be faulty and that breakdowns in a firm's system of quality management may occur, for example, due to human error or behavior or failures in IT applications.

Authority of This Section (Ref: [par. .13](#))

- .A5** The objective of this section provides the context in which the requirements of this section are set, establishes the desired outcome of this section, and is intended to assist the firm in understanding what needs to be accomplished and, when necessary, the appropriate means of doing so.
- .A6** The requirements of this section are expressed using the word *should*.

- .A7** When necessary, the application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. In particular, it may
- explain more precisely what a requirement means or is intended to cover, and
 - include examples that illustrate how the requirements might be applied.

Although such guidance does not, in itself, impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in this section. These additional considerations assist in the application of the requirements in this section. They do not, however, limit or reduce the responsibility of the firm to apply and comply with the requirements in this section.

- .A8** This section includes, under the heading “Definitions,” a description of the meanings attributed to certain terms for purposes of this section. These definitions are provided to assist in the consistent application and interpretation of this section and are not intended to override definitions that may be established for other purposes, whether in law, regulation, or otherwise.

Definitions

Accounting and Auditing Practice (Ref: [par. .17](#))

- .A9** Standards promulgated by the ASB and ARSC that apply to engagements covered by this section comprise the following:
- Statements on Auditing Standards (SASs)
 - Statements on Standards for Attestation Engagements (SSAEs)
 - Statements on Standards for Accounting and Review Services (SSARs)

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*.

Deficiency (Ref: [par. .17](#))

- .A10** The firm identifies deficiencies by evaluating findings. A deficiency may arise from a finding or a combination of findings.

- .A11** When a deficiency is identified as a result of a quality risk, or combination of quality risks, not being identified or properly assessed, the responses to address such quality risks may also be absent or not appropriately designed or implemented.

- .A12** The other aspects of the system of quality management consist of the requirements in this section addressing the following:

- Assigning responsibilities ([paragraphs .21–.22](#))
- The firm’s risk assessment process
- The monitoring and remediation process
- The evaluation of the system of quality management

- .A13** Examples of deficiencies related to other aspects of the system of quality management include the following:

- The firm’s risk assessment process fails to identify information that indicates changes in the nature and circumstances of the firm and its engagements and the need to establish additional quality objectives or modify the quality risks or responses.
- The firm’s monitoring and remediation process is not designed or implemented in a manner that
 - provides relevant, reliable, and timely information about the design, implementation, and operation of the system of quality management.
 - enables the firm to take appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis.
- The individual or individuals assigned ultimate responsibility and accountability for the system of quality management do not undertake the annual evaluation of the system of quality management.

Engagement Team (Ref: [par. .17](#))

- .A14** AU-C section 220, *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*,³ provides guidance in applying the definition of engagement team in the context of an audit of financial statements. SAS No. 149, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)*, expands on how AU-C section 220 is to be applied in relation to an audit of group financial statements. The quality risks and responses to those risks relevant to group audit engagements may be different for engagement team members who are firm personnel than for engagement team members who

³ Paragraphs .A15–.A21 of AU-C section 220, *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*. [As amended, effective concurrently with a firm’s implementation of SQMS Nos. 1 and 2 on December 15, 2025, by SQMS No. 3.]

are external to the firm (for example, engagement team members who are from network firms or are service providers, such as component auditors from firms not within the firm's network). Additionally, referred-to auditors are not members of the engagement team and referred-to auditors are not component auditors. Likewise, in an examination or review engagement, when a firm determines to make reference to the examination or review of another auditor, another accountant, or other practitioner,⁴ those referred to are also not members of the engagement team. [As amended, effective concurrently with a firm's implementation of SQMS Nos. 1 and 2 on December 15, 2025, by SQMS No. 3.]

External Inspections (Ref: [par. .17](#))

.A15 In some circumstances, an external oversight authority, such as the U.S. Department of Labor, may undertake other types of inspections, for example, reviews that focus on, for a selection of firms, particular aspects of audit engagements or firm-wide practices.

Findings (Ref: [par. .17](#))

- .A16** As part of accumulating findings from monitoring activities, external inspections, and other relevant sources, the firm may identify other observations about the firm's system of quality management, such as positive outcomes or opportunities for the firm to improve, or further enhance, the system of quality management. [Paragraph .A168](#) explains how other observations may be used by the firm in the system of quality management.
- .A17** [Paragraph .A157](#) provides examples of information from other relevant sources.
- .A18** Monitoring activities include monitoring at the engagement level, such as inspection of engagements. Furthermore, external inspections and other relevant sources may include information that relates to specific engagements. As a result, information about the design, implementation, and operation of the system of quality management includes engagement-level findings that may be indicative of findings in relation to the system of quality management.

Firm (Ref: [par. .17](#))

.A19 The definition of firm in relevant ethical requirements may differ from the definition set out in this section.

Network (Ref: [par. .17](#) and [.49](#))

.A20 Networks and the firms within the network may be structured in a variety of ways. For example, in the context of a firm's system of quality management,

- the network may establish requirements for the firm related to its system of quality management or provide services that are used by the firm in its system of quality management or in performing engagements.
- other firms within the network may provide services (for example, resources) that are used by the firm in its system of quality management or in performing engagements.
- other structures or organizations within the network may establish requirements for the firm related to its system of quality management or provide services.

For the purposes of this section, any network requirements or network services that are obtained from the network, another firm within the network, or another structure or organization in the network are considered "network requirements or network services."

Personnel (Ref: [par. .17](#))

- .A21** In addition to personnel (that is, individuals in the firm), the firm may use individuals external to the firm in performing activities in the system of quality management or in performing engagements. For example, individuals external to the firm may include individuals from other network firms (for example, individuals in a service delivery center of a network firm) or individuals employed by a service provider (for example, a component auditor from another firm not within the firm's network).
- .A22** Personnel also includes partners and staff in other structures of the firm, such as a service delivery center in the firm.

Relevant Ethical Requirements (Ref: [par. .17](#) and [.30](#))

- .A23** The relevant ethical requirements that are applicable in the context of a system of quality management may vary, depending on the nature and circumstances of the firm and its engagements. The AICPA code acknowledges that federal, state, or local statutes, rules, or regulations may be more restrictive than the AICPA code.
- .A24** Various provisions of the relevant ethical requirements may apply only to individuals in the context of the performance of engagements and not the firm itself. For example, the "Integrity and Objectivity Rule" (ET sec. 1.100.001) of the AICPA code prohibits individuals from knowingly misrepresenting facts or subordinating their judgment when performing professional services for a client or for an employer. Compliance with such relevant ethical requirements by individuals may need to be addressed by the firm's system of quality management.

⁴ Paragraph .12 of AT-C section 105, *Concepts Common to All Attestation Engagements*, contains the definition of *other practitioner*. [Footnote added, effective concurrently with a firm's implementation of SQMS Nos. 1 and 2 on December 15, 2025, by SQMS No. 3.]

Response (Ref: [par. .17](#))

- .A25** Policies are implemented through the actions of personnel and other individuals whose actions are subject to the policies (including engagement teams) or through their restraint from taking actions that would conflict with the firm's policies.
- .A26** Procedures may be mandated, through formal documentation or other communications, or may result from behaviors that are not mandated but, rather, are conditioned by the firm's culture. Procedures may be enforced through the actions permitted by IT applications or other aspects of the firm's IT environment.
- .A27** If the firm uses individuals external to the firm in the system of quality management or in performing engagements, different policies or procedures may need to be designed by the firm to address the actions of the individuals. SAS No. 146⁵ provides guidance when different policies or procedures may need to be designed by the firm to address the actions of individuals external to the firm in the context of an audit of financial statements.

Service Provider (Ref: [par. .17](#))

- .A28** Service providers include component auditors from other firms not within the firm's network.

Applying, and Complying With, Relevant Requirements (Ref: [par. .18](#))

- .A29** Examples of when a requirement of this section may not be relevant to the firm include the following:
- The firm is a sole practitioner. For example, the requirements addressing the organizational structure and assigning roles, responsibilities, and authority within the firm; direction, supervision, and review; and addressing differences of opinion may not be relevant.
 - The firm only performs engagements that are preparation of financial statements engagements in accordance with AR-C section 70, *Preparation of Financial Statements*. For example, because the firm is not required to maintain independence for preparation of financial statements engagements, the requirement to obtain a documented confirmation of compliance with independence requirements from all personnel would not be relevant.

System of Quality Management

Design, Implement, and Operate a System of Quality Management (Ref: [par. .20](#))

- .A30** Quality management is not a separate function of the firm; it is the integration of a culture that demonstrates a commitment to quality with the firm's strategy, operational activities, and business processes. As a result, designing the system of quality management and the firm's operational activities and business processes in an integrated manner may promote a harmonious approach to managing the firm and enhance the effectiveness of quality management.
- .A31** The quality of professional judgments exercised by the firm is likely to be enhanced when individuals making such judgments demonstrate an attitude that includes an inquiring mind, which involves
- considering the source, relevance, and sufficiency of information obtained about the system of quality management, including information related to the nature and circumstances of the firm and its engagements, and
 - being open and alert to a need for further investigation or other action.

Responsibilities (Ref: [par. .21–.22](#) and [.29d](#))

- .A32** The governance and leadership component includes a quality objective that the firm has an organizational structure and assignment of roles, responsibilities, and authority that is appropriate to enable the design, implementation, and operation of the firm's system of quality management.
- .A33** Notwithstanding the assignment of responsibilities related to the system of quality management in accordance with [paragraph .21](#), the firm remains ultimately responsible for the system of quality management and holding individuals responsible and accountable for their assigned roles. For example, in accordance with [paragraphs .54–.55](#), although the firm assigns the evaluation of the system of quality management and conclusion thereon to the individual or individuals assigned ultimate responsibility and accountability for the system of quality management, the firm is responsible for the evaluation and conclusion.
- .A34** Individuals who have the appropriate influence and authority within the firm, as required by [paragraph .22](#), to be assigned responsibility for the matters in [paragraph .21](#) are typically partners of the firm. However, based on the legal structure of the firm, there may be circumstances in which an individual

⁵ Paragraphs A23–A25 of Statement on Auditing Standards (SAS) No. 146, Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards (AU-C sec. 220). [Footnote renumbered by the issuance of SQMS No. 3, March 2023.]

may not be a partner of the firm, but the individual has the appropriate influence and authority within the firm to perform the assigned role because of formal arrangements made by the firm or the firm's network.

- .A35** How the firm assigns roles, responsibilities, and authority within the firm may vary, and law or regulation may impose certain requirements for the firm that affect the leadership and management structure or their assigned responsibilities. An individual assigned responsibility for a matter in [paragraph .21](#) may further assign roles, procedures, tasks, or actions to other individuals to assist the individual in fulfilling the responsibilities. However, an individual assigned responsibility for a matter in [paragraph .22](#) remains responsible and accountable for the responsibilities assigned to the individual.
- .A36** An example of scalability to demonstrate how assigning roles and responsibilities may be undertaken in firms of different complexity is as follows:
- In a less complex firm, ultimate responsibility and accountability for the system of quality management may be assigned to a single managing partner with sole responsibility for the oversight of the firm. This individual may also assume responsibility for all aspects of the system of quality management, including operational responsibility for the system of quality management, compliance with independence requirements, and the monitoring and remediation process.
 - In a more complex firm, the organizational structure of the firm may include multiple levels of leadership, and the firm may have an independent governing body that has nonexecutive oversight of the firm, which may comprise external individuals. Furthermore, the firm may assign operational responsibility for specific aspects of the system of quality management beyond those specified in [paragraph .21c](#), such as operational responsibility for compliance with ethical requirements or operational responsibility for managing a service line.
- .A37** Compliance with independence requirements is essential to the performance of engagements in a firm's accounting and auditing practice and is an expectation of stakeholders relying on the firm's reports. The individual or individuals assigned operational responsibility for compliance with independence requirements are ordinarily responsible for the oversight of all matters related to independence so that a robust and consistent approach is designed and implemented by the firm to deal with independence requirements.

.A38 Law, regulation, or professional standards may establish additional requirements for an individual assigned responsibility for a matter in [paragraph .21](#), such as requirements for professional licensing, professional education, or continuing professional development.

.A39 The appropriate experience and knowledge for the individual or individuals assigned operational responsibility for the system of quality management ordinarily includes an understanding of the firm's strategic decisions and actions and experience with the firm's business operations.

The Firm's Risk Assessment Process (Ref: par. .24)

.A40 How the firm designs the firm's risk assessment process may be affected by the nature and circumstances of the firm, including how the firm is structured and organized.

Examples of scalability to demonstrate how the firm's risk assessment process may differ from that of other firms include the following:

- In a less complex firm, the individual or individuals assigned operational responsibility for the system of quality management may have a sufficient understanding of the firm and its engagements to undertake the risk assessment process. Furthermore, the documentation of the quality objectives, quality risks, and responses may be less extensive than for a more complex firm (for example, it may be documented in a single document).
- In a more complex firm, there may be a formal risk assessment process involving multiple individuals and numerous activities. The process may be centralized (for example, the quality objectives, quality risks, and responses are established centrally for all business units, functions, and service lines) or decentralized (for example, the quality objectives, quality risks, and responses are established at a business unit, function, or service line level, with the outputs combined at the firm level). The firm's network may also provide the firm with quality objectives, quality risks, and responses to be included in the firm's system of quality management.

.A41 The process of establishing quality objectives, identifying and assessing quality risks, and designing and implementing responses is iterative, and the requirements of this section are not intended to be addressed in a linear manner. Examples of the iterative and nonlinear nature of the firm's risk assessment process include the following:

- In identifying and assessing quality risks, the firm might determine that an additional quality objective needs to be established.
- When designing and implementing responses, the firm might determine that a quality risk was not identified and assessed.

.A42 Information sources that enable the firm to establish quality objectives, identify and assess quality risks, and design and implement responses are part of the firm's information and communication component and include the following:

- The results of the firm's monitoring and remediation process (see [paragraphs .43](#) and [.A169](#))
- Information from the network or service providers, including
 - information about network requirements or network services (see [paragraph .49](#))
 - other information from the network, including information about the results of monitoring activities undertaken by the network across the network firms (see [paragraphs .51–.52](#))

Other information, whether internal or external, may also be relevant to the firm's risk assessment process, such as the following:

- Information regarding complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements or noncompliance with the firm's policies or procedures established in accordance with this section
- The results of external inspections
- Information from regulators about the entities for whom the firm performs engagements that is made available to the firm, such as information from a securities regulator about an entity for whom the firm performs engagements (for example, irregularities in the entity's financial statements or noncompliance with securities regulations)

- Changes in the system of quality management that affect other aspects of the system; for example, changes in the firm's resources
- Other external sources, such as regulatory actions and litigation against the firm or other firms in the jurisdiction that may highlight areas for the firm to consider

Establish Quality Objectives (Ref: [par. .25](#))

.A43 Law, regulation, or professional standards may establish requirements that give rise to additional quality objectives. For example, if a firm is required by law or regulation to appoint nonexecutive individuals to the firm's governance structure, the firm may consider it necessary to establish additional quality objectives to address the requirements.

.A44 While the nature and circumstances of the firm and its engagements are specific to the firm, the quality objectives are sufficiently comprehensive such that it is unlikely that the firm would find it necessary to establish additional quality objectives.

.A45 The firm may establish sub-objectives to enhance the firm's identification and assessment of quality risks and design and implementation of responses.

Identify and Assess Quality Risks (Ref: [par. .26](#))

.A46 There may be other conditions, events, circumstances, actions, or inactions not described in [paragraph .26a](#) that may adversely affect the achievement of a quality objective.

.A47 A risk arises from how, and the degree to which, a condition, event, circumstance, action, or inaction may adversely affect the achievement of a quality objective. Not all risks meet the definition of a quality risk. Professional judgment assists the firm in determining whether a risk is a quality risk, which is based on the firm's consideration of whether there is a reasonable possibility of the risk occurring and, individually or in combination with other risks, adversely affecting the achievement of one or more quality objectives.

.A48 Examples of the firm’s understanding of the conditions, events, circumstances, actions, or inactions that may adversely affect the achievement of the quality objectives and the related quality risks are as follows:

Examples of the firm’s understanding of the conditions, events, circumstances, actions, or inactions that may adversely affect the achievement of the quality objectives	Examples of quality risks that may arise
<p>The strategic and operational decisions and actions, business processes, and business model of the firm: The firm’s overall financial goals are overly dependent on the extent of services provided by the firm not within the scope of this section.</p>	<p>In the context of governance and leadership, this may give rise to a number of quality risks such as the following:</p> <ul style="list-style-type: none"> • Resources are allocated or assigned in a manner that prioritizes the services not within the scope of this section and may negatively affect the quality of engagements within the scope of this section. • Decisions about financial and operational priorities do not fully or adequately consider the importance of quality in performing engagements within the scope of this section.
<p>The characteristics and management style of leadership: The firm is a smaller firm with a few engagement partners with shared authority.</p>	<p>In the context of governance and leadership, this may give rise to a number of quality risks such as the following:</p> <ul style="list-style-type: none"> • Leadership’s responsibilities and accountability for quality are not clearly defined and assigned. • The actions and behaviors of leadership that do not promote quality are not questioned.
<p>The complexity and operating characteristics of the firm: The firm has recently completed a merger with another firm.</p>	<p>In the context of resources, this may give rise to a number of quality risks, including the following:</p> <ul style="list-style-type: none"> • Technological resources used by the two merged firms may be incompatible. • Engagement teams may use intellectual resources developed by a firm prior to the merger, which are no longer consistent with the new methodology being used by the new merged firm.

.A49 Given the evolving nature of the system of quality management, the responses designed and implemented by the firm may give rise to conditions, events, circumstances, actions, or inactions that result in further quality risks. For example, the firm may implement a resource (for example, a technological resource) to address a quality risk, and quality risks may arise from the use of such resource.

.A50 The degree to which a risk, individually or in combination with other risks, may adversely affect the achievement of a quality objective may vary based on the conditions, events, circumstances, actions, or inactions giving rise to the risk, taking matters such as the following into account:

- How the condition, event, circumstance, action, or inaction would affect the achievement of the quality objective
- How frequently the condition, event, circumstance, action, or inaction is expected to occur
- How long it would take after the condition, event, circumstance, action, or inaction occurred for it to have an effect, and whether in that time the firm would have an opportunity to respond to mitigate the effect of the condition, event, circumstance, action, or inaction
- How long the condition, event, circumstance, action, or inaction would affect the achievement of the quality objective once it has occurred

The assessment of quality risks need not comprise formal ratings or scores, although firms are not precluded from using them.

Design and Implement Responses to Address the Quality Risks (Ref: [par. .17](#) and [.27](#))

- .A51** The nature, timing, and extent of the responses are based on the reasons for the assessment given to the quality risks.
- .A52** The responses designed and implemented by the firm may operate at the firm level or engagement level, or there may be a combination of responsibilities for actions to be taken at the firm and engagement level. An example of a response designed and implemented by the firm that operates at both the firm and engagement level is as follows:
- The firm establishes policies or procedures for consultation, which include with whom consultation should be undertaken by engagement teams and the specific matters for which consultation is required. The firm appoints suitably qualified and experienced individuals to provide the consultations. The engagement team is responsible for identifying when matters for consultation occur, initiating consultation, and implementing the conclusions from consultation.⁶
- .A53** The need for formally documented policies or procedures may be greater for firms that have many personnel or that are geographically dispersed, in order to achieve consistency across the firm.

Changes in the Nature and Circumstances of the Firm or Its Engagements (Ref: [par. .28](#))

- .A54** Examples of scalability to demonstrate how policies or procedures for identifying information about changes in the nature and circumstances of the firm and its engagements may vary from other firms include the following:
- In a less complex firm, the firm may have informal policies or procedures to identify information about changes in the nature and circumstances of the firm or its engagements, particularly when the individual or individuals responsible for establishing quality objectives, identifying and assessing quality risks, and designing and implementing responses are able to identify such information in the normal course of their activities.
 - In a more complex firm, the firm may need to establish more formal policies or procedures to identify and consider information about changes in the nature and circumstances of the firm or its engagements.

This may include, for example, a periodic review of information relating to the nature and circumstances of the firm and its engagements, including ongoing tracking of trends and occurrences in the firm's internal and external environment.

- .A55** Additional quality objectives may need to be established, or quality risks and responses added to or modified, as part of the remedial actions undertaken by the firm to address an identified deficiency in accordance with [paragraph .43](#).
- .A56** The firm may have established quality objectives in addition to those specified by this section. The firm may also identify information that indicates that additional quality objectives previously established by the firm are no longer needed or need to be modified.

Governance and Leadership

Commitment to Quality (Ref: [par. .29a](#))

- .A57** The firm's culture is an important factor in influencing the behavior of personnel. Relevant ethical requirements ordinarily establish the principles of professional ethics and are further addressed in the "Relevant Ethical Requirements" section. Professional values and attitudes may include the following:
- Professional manner; for example, timeliness, courteousness, respect, accountability, responsiveness, and dependability
 - A commitment to teamwork
 - Maintaining an open mind to new ideas or different perspectives in the professional environment
 - Pursuit of excellence
 - A commitment to continual improvement (for example, setting expectations beyond the minimum requirements and placing a focus on continual learning)
 - Social responsibility
- .A58** The firm's strategic decision-making process, including the establishment of a business strategy, may include matters such as the firm's decisions about financial and operational matters, the firm's financial goals, how financial resources are managed, growth of the firm's market share, industry specialization, or new service offerings. The firm's financial and operational priorities may directly or indirectly affect the firm's commitment to quality; for example, the firm may have incentives focused on financial and operational priorities that may discourage behaviors that demonstrate a commitment to quality.

⁶ Paragraph 35 of SAS No. 146. [Footnote renumbered by the issuance of SQMS No. 3, March 2023.]

Leadership (Ref: [par. .29b–c](#))

- .A59** The responses designed and implemented by the firm to hold leadership responsible and accountable for quality include the performance evaluations required by [paragraph .57](#).
- .A60** Although leadership establishes the tone at the top through its actions and behaviors, clear, consistent, and frequent actions and communications at all levels within the firm collectively contribute to the firm's culture and demonstrate a commitment to quality.

Organizational Structure (Ref: [par. .29d](#))

- .A61** The organizational structure of the firm may include operating units, operational processes, divisions, or geographical locations and other structures. In some instances, the firm may concentrate or centralize processes or activities in a service delivery center, and engagement teams may include personnel from the firm's service delivery center who perform specific tasks that are repetitive or specialized in nature.

Resources (Ref: [par. .29e](#))

- .A62** The individual or individuals assigned ultimate responsibility and accountability or operational responsibility for the system of quality management are, in most cases, able to influence the nature and extent of resources that the firm obtains, develops, uses, and maintains and how those resources are allocated or assigned, including the timing of when they are used.
- .A63** Because resource needs may change over time, it may not be practicable to anticipate all resource needs. The firm's resource planning may involve determining the resources currently required, forecasting the firm's future resource needs, and establishing processes to deal with unanticipated resource needs when they arise.

Relevant Ethical Requirements (Ref: [par. .17](#) and [.30](#))

- .A64** The AICPA code sets out the fundamental principles of ethics that provide the framework for the rules that govern the performance of professional responsibilities. The fundamental principles are responsibilities, the public interest, integrity, objectivity and independence, due care, and scope and nature of services. Independence requirements are set forth in the "Independence Rule" (ET sec. 1.200.001) and related interpretations of the AICPA code and the rules of state boards of accountancy and applicable regulatory agencies. Guidance on threats to independence and safeguards to mitigate such threats involving matters that are not explicitly addressed in the AICPA code are set forth in the "Conceptual Framework for Independence" (ET sec. 1.210.010).

- .A65** In some cases, the matters addressed by the firm in its system of quality management may be more specific than, or additional to, the provisions of relevant ethical requirements. Examples of matters that a firm may include in its system of quality management that are more specific than, or additional to, the provisions of relevant ethical requirements include the following:
- The firm prohibits the acceptance of gifts and hospitality from a client, even if the value is trivial and inconsequential.
 - The firm sets rotation periods for all engagement partners, including those performing attestation, review, and compilation engagements.
- .A66** Other components may affect or relate to the relevant ethical requirements component. Examples of relationships between the relevant ethical requirements component and other components include the following:
- The information and communication component may address the communication of various matters related to relevant ethical requirements, including
 - the firm communicating the independence requirements to all personnel and others subject to independence requirements.
 - personnel and engagement teams communicating relevant information to the firm without fear of reprisals, such as situations that may create threats to independence or breaches of relevant ethical requirements.
 - As part of the resources component, the firm may
 - assign individuals to manage and monitor compliance with relevant ethical requirements or to provide consultation on matters related to relevant ethical requirements.
 - use IT applications to monitor compliance with relevant ethical requirements, including recording and maintaining information about independence.
- .A67** The relevant ethical requirements that apply to others depend on the provisions of the relevant ethical requirements and how the firm uses others in its system of quality management or in performing engagements. Examples of relevant ethical requirements that apply to others include the following:
- Relevant ethical requirements may include requirements for independence that apply to network firms or employees of network firms; for example, the AICPA code includes independence requirements that apply to network firms.
 - Relevant ethical requirements may include a definition of engagement team or other similar concept, and the definition may include any individual who

performs assurance procedures on the engagement (for example, a service provider engaged to attend a physical inventory count at a remote location). Accordingly, any requirements of the relevant ethical requirements that apply to the engagement team as defined in the relevant ethical requirements, or other similar concept, may also be relevant to such individuals.

- The principle of confidentiality may apply to the firm's network, other network firms, or service providers when they have access to client information obtained by the firm.

.A68 SAS No. 149⁷ states that when the component auditor is not subject to the AICPA code, compliance with the ethics and independence requirements set forth in the International Ethics Standards Board for Accountants (IESBA) *International Code of Ethics for Professional Accountants* is sufficient to fulfill the component auditor's ethical responsibilities in the group audit.⁸ The firm may use, for example, confirmations, letters of representation, or other affirmations from network firms, employees of network firms, or service providers regarding the fulfillment of ethical requirements that are relevant to the firm. [As amended, effective concurrently with a firm's implementation of SQMS Nos. 1 and 2 on December 15, 2025, by SQMS No. 3.]

Acceptance and Continuance of Client Relationships and Specific Engagements

The Nature and Circumstances of the Engagement and the Integrity and Ethical Values of the Client (Ref: [par. .31a\(i\)](#))

.A69 The information obtained about the nature and circumstances of the engagement may include the following:

- The industry of the entity for which the engagement is being undertaken and relevant regulatory factors
- The nature of the entity; for example, its operations, organizational structure, ownership and governance, its business model, and how it is financed
- The nature of the underlying subject matter and the applicable criteria; for example, in the case of sustainability reporting,
 - the underlying subject matter may include social, environmental, or health and safety information.

- the applicable criteria may be performance measures established by a recognized body of specialists.

.A70 The information obtained to support the firm's judgments about the integrity and ethical values of the client may include the identity and business reputation of the client's principal owners, key management, and those charged with its governance.

.A71 Examples of factors that may affect the nature and extent of information obtained about the integrity and ethical values of the client include the following:

- The nature of the entity for which the engagement is being performed, including the complexity of its ownership and management structure
- The nature of the client's operations, including its business practices
- Information concerning the attitude of the client's principal owners, key management, and those charged with its governance toward such matters as aggressive interpretation of accounting standards and the internal control environment
- Whether the client is aggressively concerned with keeping the firm's fees as low as possible
- Indications of a client-imposed limitation in the scope of work
- Indications that the client might be involved in money laundering or other criminal activities
- The reasons for the proposed appointment of the firm and non-reappointment of the previous firm
- The identity and business reputation of related parties

.A72 The firm may obtain the information from a variety of internal and external sources, including the following:

- In the case of an existing client, information from current or previous engagements, if applicable, or inquiry of other personnel who have performed other engagements for the client.
- In the case of a new client, inquiry of existing or previous providers of auditing services to the client, in accordance with relevant ethical requirements.
- Discussions with other third parties, such as bankers, legal counsel, and industry peers.
- Background searches of relevant databases (which may be intellectual resources). In some cases, the firm may use a service provider to perform the background search.

⁷ Paragraph A68 of SAS No. 149, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)*. [Footnote renumbered and amended, effective concurrently with a firm's implementation of SQMS Nos. 1 and 2 on December 15, 2025, by SQMS No. 3.]

⁸ The section, "Application of the AICPA Code" (ET sec. 0.200.020), of the AICPA Code of Professional Conduct (AICPA code) explains that an AICPA member who is the group engagement partner will not be considered in violation of the AICPA code if a component auditor practicing outside the United States departs from the AICPA code with respect to the audit or review of group financial statements, as long as the component auditor's conduct, at a minimum, is in accordance with the ethics and independence requirements set forth in the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants. [Footnote renumbered by the issuance of SQMS No. 3, March 2023.]

.A73 Information that is obtained during the firm's acceptance and continuance process also may often be relevant to the engagement team when planning and performing the engagement. Professional standards may specifically require the engagement team to obtain or consider such information. For example, SAS No. 146⁹ requires the engagement partner to take into account information obtained in the acceptance and continuance process in planning and performing the audit engagement.

.A74 Professional standards or applicable legal and regulatory requirements may include specific provisions that need to be addressed before accepting or continuing a client relationship or specific engagement and may also require the firm to make inquiries of an existing or predecessor firm when accepting an engagement. For example, when there has been a change of auditors, AU-C section 210, Terms of Engagement,¹⁰ requires the auditor, prior to starting an initial audit, to request management to authorize the predecessor auditor to respond fully to the auditor's inquiries regarding matters that will assist the auditor in determining whether to accept the engagement. The "Conflicts of Interest for Members in Public Practice" interpretation (ET sec. 1.110.010) of the AICPA code also addresses consideration of conflicts of interest in accepting or continuing a client relationship or specific engagement.

The Firm's Ability to Perform Engagements (Ref: [par. .31a\(ii\)](#))

.A75 The firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements may be affected by the following:

- The availability of appropriate resources to perform the engagement
- Having access to information to perform the engagement or to the persons who provide such information
- Whether the firm and the engagement team are able to fulfill their responsibilities in relation to the relevant ethical requirements

.A76 Examples of factors the firm may consider in determining whether appropriate resources are available to perform the engagement include the following:

- The circumstances of the engagement and the reporting deadline.

- The availability of individuals with the appropriate competence and capabilities, including sufficient time, to perform the engagement. This includes having
 - individuals to take overall responsibility for directing and supervising the engagement,
 - individuals with knowledge of the relevant industry or the underlying subject matter or criteria to be applied in the preparation of the subject matter information and experience with relevant regulatory or reporting requirements, and
 - individuals to perform audit procedures on the financial information of a component for purposes of an audit of group financial statements.
- The availability of specialists, if needed.
- If an engagement quality review is needed, whether there is an individual available who meets the eligibility requirements in [section 20](#).
- The need for technological resources; for example, IT applications that enable the engagement team to perform procedures on the entity's data.
- The need for intellectual resources; for example, a methodology, industry or subject-matter-specific guides, or access to information sources.

The Firm's Financial and Operational Priorities (Ref: [par. .31b](#))

.A77 Financial priorities may focus on the profitability of the firm, and fees obtained for performing engagements have an effect on the firm's financial resources. Operational priorities may include strategic focus areas, such as growth of the firm's market share, industry specialization, or new service offerings. There may be circumstances in which the firm is satisfied with the fee quoted for an engagement, but it is not appropriate for the firm to accept or continue the engagement or client relationship (for example, when the client lacks integrity and ethical values).

.A78 There may be other circumstances in which the fee quoted for an engagement is not sufficient given the nature and circumstances of the engagement, and it may diminish the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. The "Fees and Other Types of Remuneration" rule (ET sec. 1.500) of the AICPA code addresses fees and other types of remuneration.

⁹ Paragraph 23 of SAS No. 146. [Footnote renumbered by the issuance of SQMS No. 3, March 2023.]

¹⁰ Paragraph .11 of AU-C section 210, Terms of Engagement. [Footnote renumbered by the issuance of SQMS No. 3, March 2023.]

Engagement Performance

Responsibilities of the Engagement Team and Direction, Supervision, and Review (Ref: [par. .32a–b](#))

.A79 Professional standards or applicable legal and regulatory requirements may include specific provisions regarding the overall responsibility of the engagement partner. For example, SAS No. 146 deals with the overall responsibility of the engagement partner for managing and achieving quality on the engagement and for being sufficiently and appropriately involved throughout the engagement, including taking responsibility for appropriate direction and supervision of the engagement team and review of its work.

.A80 Examples of direction, supervision, and review include the following:

- Direction and supervision of the engagement team may include
 - tracking the progress of the engagement,
 - considering the following with respect to members of the engagement team:
- Whether they understand their instructions
- Whether the work is being carried out in accordance with the planned approach to the engagement
 - addressing matters arising during the engagement, considering their significance, and modifying the planned approach appropriately, and
 - identifying matters for consultation or consideration by more experienced engagement team members during the engagement.
- A review of work performed may include considering whether
 - the work has been performed in accordance with the firm's policies or procedures, professional standards, and applicable legal and regulatory requirements;
 - significant matters have been raised for further consideration;
 - appropriate consultations have been undertaken, and the resulting conclusions have been documented and implemented;
 - there is a need to revise the nature, timing, and extent of planned work;
 - the work performed supports the conclusions reached and is appropriately documented;

- the evidence obtained for an assurance engagement is sufficient and appropriate to support the report; and
- the objectives of the engagement procedures have been achieved.

.A81 In some circumstances, the firm may use personnel from a service delivery center in the firm or individuals from a service delivery center in another network firm to perform procedures on the engagement (that is, the personnel or other individuals are included in the engagement team). In such circumstances, the firm's policies or procedures may specifically address the direction and supervision of the individuals and review of their work, such as

- what aspects of the engagement may be assigned to individuals in the service delivery center;
- how the engagement partner, or their designee, is expected to direct, supervise, and review the work undertaken by individuals in the service delivery center; and
- the protocols for communication between the engagement team and individuals in the service delivery center.

Professional Judgment and Professional Skepticism (Ref: [par. .32c](#))

.A82 Professional skepticism supports the quality of judgments made on an assurance engagement and, through these judgments, the overall effectiveness of the engagement team in performing the assurance engagement. Other professional standards may address the exercise of professional judgment or maintenance of professional skepticism at the engagement level. For example, SAS No. 146¹¹ provides examples of impediments to the maintenance of professional skepticism at the engagement level, unconscious auditor biases that may impede the maintenance of professional skepticism, and possible actions that the engagement team may take to mitigate such impediments.

Consultation (Ref: [par. .32d](#))

.A83 Consultation typically involves a discussion at the appropriate professional level, with individuals within or outside the firm who have specialized expertise on difficult or contentious matters. An environment that reinforces the importance and benefit of consultation and encourages engagement teams to consult may contribute to supporting a culture that demonstrates a commitment to quality.

¹¹ Paragraphs A34–A36 of SAS No. 146. [Footnote renumbered by the issuance of SQMS No. 3, March 2023.]

.A84 Difficult or contentious matters on which consultation is needed may either be specified by the firm, or the engagement team may identify matters that require consultation. The firm may also specify how conclusions should be agreed upon and implemented.

.A85 SAS No. 146¹² includes requirements for the engagement partner related to consultation.

Differences of Opinion (Ref: [par. .32e](#))

.A86 The firm may encourage identifying differences of opinion at an early stage and may specify the steps to be taken in raising and dealing with them, including how the matter is to be resolved and how the related conclusions should be implemented and documented. In some circumstances, resolving differences of opinion may be achieved through consulting with another practitioner or firm, or a professional or regulatory body.

Engagement Documentation (Ref: [par. .32f](#))

.A87 Law, regulation, or professional standards may prescribe the time limits by which the assembly of final engagement files for specific types of engagements are to be completed. When no such time limits are prescribed, the time limit may be determined by the firm. For example, in the case of engagements conducted in accordance with the SSAEs or SSARs, an appropriate time limit within which to complete the assembly of the final engagement file is ordinarily not more than 60 days after the date of the engagement report.

.A88 The retention and maintenance of engagement documentation may include managing the safe custody, integrity, accessibility, or retrievability of the underlying data and the related technology. The retention and maintenance of engagement documentation may involve the use of IT applications. The integrity of engagement documentation may be compromised if it is altered, supplemented, or deleted without authorization to do so, or if it is permanently lost or damaged.

.A89 Law, regulation, or professional standards may prescribe the retention periods for engagement documentation. If the retention periods are not prescribed, the firm may consider the nature of the engagements performed by the firm and the firm's circumstances, including whether the engagement documentation is needed to provide a record of matters of continuing significance to future engagements. In the case of engagements conducted under generally accepted auditing standards or the SSAEs, the retention period is ordinarily no shorter than five years from the date of the engagement report or, if later, the date of the auditor's report on the group financial statements, when applicable.

Resources (Ref: [par. .33](#))

.A90 Resources for the purposes of the resources component include the following:

- Human resources
- Technological resources; for example, IT applications
- Intellectual resources; for example, written policies or procedures, a methodology, or guides

Financial resources are also relevant to the system of quality management because they are necessary for obtaining, developing, and maintaining the firm's human resources, technological resources, and intellectual resources. Given that the management and allocation of financial resources is strongly influenced by leadership, the quality objectives in governance and leadership, such as those that address financial and operational priorities, address financial resources.

.A91 Resources may be internal to the firm or may be obtained externally from the firm's network, another network firm, or service provider. Resources may be used in performing activities within the firm's system of quality management or in performing engagements as part of operating the system of quality management. In circumstances in which a resource is obtained from the firm's network or another network firm, [paragraphs .49–.53](#) form part of the responses designed and implemented by the firm in achieving the objectives in this component. Determining the difference between a resource or an information source depends on the particular circumstances, for example

- a component auditor is a resource used in performing a group audit.
- an auditor's external expert is a resource used in performing an audit.
- a referred-to auditor is an information source because a referred-to auditor's report provides information to be used as audit evidence.
- a predecessor auditor, accountant, or practitioner is an information source because information obtained from them about opening balances or consistency of accounting principles provides information to be used as audit evidence.
- a service auditor that issues a report on a service organization's controls is an information source and not a resource, unless the service organization is requested to perform further procedures for purposes of the particular engagement.

[As amended, effective concurrently with a firm's implementation of SQMS Nos. 1 and 2 on December 15, 2025, by SQMS No. 3.]

¹² Paragraph 35 of SAS No. 146. [Footnote renumbered by the issuance of SQMS No. 3, March 2023.]

Human Resources

Hiring, Developing, and Retaining Personnel and Personnel Competence and Capabilities (Ref: [par. .33a](#) and [.33d](#))

- .A92** Competence is the ability of the individual to perform a role and goes beyond knowledge of principles, standards, concepts, facts, and procedures; it is the integration and application of technical competence, professional skills, and professional ethics, values, and attitudes. Competence can be developed through a variety of methods, including professional education, continuing professional development, training, work experience, or coaching of less experienced engagement team members by more experienced engagement team members.
- .A93** Law, regulation, or professional standards may establish requirements addressing competence and capabilities. For example, law or regulation may establish requirements for the professional licensing of engagement partners, including requirements regarding their professional education and continuing professional development.
- .A94** The policies or procedures designed and implemented by the firm relating to hiring, developing, and retaining personnel may address, for example, the following:
- Recruiting individuals who have, or are able to develop, appropriate competence
 - Training programs focused on developing the competence of personnel and continuing professional development
 - Evaluation mechanisms that are undertaken at appropriate intervals and include competency areas and other performance measures
 - Compensation, promotion, and other incentives, for all personnel, including engagement partners and individuals assigned roles and responsibilities related to the firm's system of quality management

Personnel's Commitment to Quality and Accountability and Recognition for Commitment to Quality (Ref: [par. .33b](#))

- .A95** Timely evaluations and feedback help support and promote the continual development of the competence of personnel. Less formal methods of evaluation and feedback may be used, such as in the case of firms with fewer personnel.
- .A96** Positive actions or behaviors demonstrated by personnel may be recognized through various means, such as through compensation, promotion, or other

incentives. In some circumstances, simple or informal incentives that are not based on monetary rewards may be appropriate.

- .A97** The manner in which the firm holds personnel accountable for actions or behaviors that negatively affect quality, such as failing to demonstrate a commitment to quality, develop and maintain the competence to perform their role, or implement the firm's responses as designed, may depend on the nature of the action or behavior, including its severity and frequency of occurrence. The following are some actions the firm may take when personnel demonstrate actions or behaviors that negatively affect quality:
- Training or other professional development
 - Considering the effect of the matter on the evaluation, compensation, promotion, or other incentives of those involved
 - Disciplinary action, if appropriate

Individuals obtained from external sources (Ref: [par. .33c](#)).

- .A98** Professional standards may include responsibilities for the engagement partner regarding the appropriateness of resources. For example, SAS No. 146¹³ addresses the responsibility of the engagement partner for determining that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner in accordance with the firm's policies or procedures.

Engagement Team Members Assigned to Each Engagement (Ref: [par. .33d](#))

- .A99** Engagement team members may be assigned to engagements by
- the firm, including assigning personnel from a service delivery center in the firm.
 - the firm's network or another network firm when the firm uses individuals from the firm's network or another network firm to perform procedures on the engagement (for example, a component auditor or a service delivery center of the network or another network firm).
 - a service provider when the firm uses individuals from a service provider to perform procedures on the engagement (for example, a component auditor from a firm not within the firm's network).
- .A100** SAS No. 146¹⁴ addresses the responsibility of the engagement partner to determine that members of the engagement team, and any auditor's external

¹³ Paragraph 25 of SAS No. 146. [Footnote renumbered by the issuance of SQMS No. 3, March 2023.]

¹⁴ Paragraph 26 of SAS No. 146. [Footnote renumbered by the issuance of SQMS No. 3, March 2023.]

specialists and internal auditors who provide direct assistance (who are not part of the engagement team), collectively have the appropriate competence and capabilities, including sufficient time, to perform the engagement. The responses designed and implemented by the firm to address the competence and capabilities of engagement team members assigned to the engagement may include policies or procedures that address the following:

- Information that may be obtained by the engagement partner and factors to consider in determining that the engagement team members assigned to the engagement, including those assigned by the firm's network, another network firm, or service provider, have the competence and capabilities to perform the engagement
- How concerns about the competence and capabilities of engagement team members, in particular those assigned by the firm's network, another network firm, or service provider, may be resolved

.A101 The requirements in [paragraphs .49–.53](#) are also applicable when using individuals from the firm's network or another network firm on an engagement, including component auditors (see, for example, [paragraph .A190](#)).

Technological Resources (Ref: par. .33f)

.A102 Technological resources, which are typically IT applications, form part of the firm's IT environment. The firm's IT environment also includes the supporting IT infrastructure and the IT processes and human resources involved in those processes:

- An IT application is a program or a set of programs that is designed to perform a specific function directly for the user or, in some cases, for another application program.
- The IT infrastructure comprises the IT network, operating systems, and databases and their related hardware and software.
- The IT processes are the firm's processes to manage access to the IT environment, program changes or changes to the IT environment, and IT operations, which includes monitoring the IT environment.

.A103 A technological resource may serve multiple purposes within the firm, and some of the purposes may be unrelated to the system of quality management. Technological resources that are relevant for the purposes of this section are as follows:

- Technological resources that are directly used in designing, implementing, or operating the firm's system of quality management

- Technological resources that are used directly by engagement teams in performing engagements
- Technological resources that are essential to enabling the effective operation of the preceding, such as, in relation to an IT application, the IT infrastructure and IT processes supporting the IT application

.A104 Examples of scalability to demonstrate how the technological resources that are relevant for the purposes of this section may differ in firms of different complexity include the following:

- In a less complex firm, the technological resources may comprise a commercial IT application used by engagement teams that has been purchased from a service provider. The IT processes that support the operation of the IT application may also be relevant, although they may be simple (for example, processes for authorizing access to the IT application and processing updates to the IT application).
- In a more complex firm, the technological resources may be more complex and may comprise the following:
 - Multiple IT applications, including custom-developed applications or applications developed by the firm's network, such as
 - IT applications used by engagement teams (for example, engagement software and automated audit tools) and
 - IT applications developed and used by the firm to manage aspects of the system of quality management (for example, IT applications to monitor independence or assign personnel to engagements)
 - The IT processes that support the operation of these IT applications, including the individuals responsible for managing the IT infrastructure and processes and the firm's processes for managing program changes to IT applications

.A105 The firm may consider the following matters in obtaining, developing, implementing, and maintaining an IT application:

- The data inputs are complete and appropriate.
- Confidentiality of the data is preserved.
- The IT application operates as designed and achieves the purpose for which it is intended.
- The outputs of the IT application achieve the purpose for which they will be used.
- The general IT controls necessary to support the IT application's continued operation as designed are appropriate.

- The need for specialized skills to use the IT application effectively, including the training of individuals who will use the IT application.
- The need to develop procedures that set out how the IT application operates.

.A106 The firm may specifically prohibit the use of IT applications or features of IT applications until such time that it has been determined that they operate appropriately and have been approved for use by the firm. Alternatively, the firm may establish policies or procedures to address circumstances in which the engagement team uses an IT application that is not approved by the firm. Such policies or procedures may require the engagement team to determine that the IT application is appropriate for use prior to using it on the engagement, through considering the matters in [paragraph .A102](#). SAS No. 146¹⁵ addresses the engagement partner's responsibilities for engagement resources.

Intellectual Resources (Ref: [par. .33g](#))

.A107 Intellectual resources include the information and materials the firm uses to enable the operation of the system of quality management and promote consistency in performing engagements. Examples of intellectual resources include written policies or procedures, a methodology, industry or subject-matter-specific guides, accounting guides, standardized documentation, or access to information sources (for example, subscriptions to websites that provide in-depth information about entities or other information that is typically used in performing engagements).

.A108 Intellectual resources may be made available through technological resources; for example, the firm's methodology may be embedded in the IT application that facilitates the planning and performance of the engagement.

Use of Technological and Intellectual Resources (Ref: [par. .33f–g](#))

.A109 The firm may establish policies or procedures regarding the use of the firm's technological and intellectual resources. Examples of such policies or procedures include the following:

- Requiring the use of certain IT applications or intellectual resources in performing engagements, or relating to other aspects of the engagement, such as in archiving the engagement file

- Specifying the qualifications or experience that individuals need to use the resource, including the need for a specialist or training; for example, the firm may specify the qualifications or expertise needed to use an IT application that analyzes data, given that specialized skills may be needed to interpret the results
- Specifying the responsibilities of the engagement partner regarding the use of technological and intellectual resources
- Setting out how the technological or intellectual resources are to be used, including how individuals should interact with an IT application or how the intellectual resource should be applied, and the availability of support or assistance in using the technological or intellectual resource

Service Providers (Ref: [par. .17](#) and [.33h](#))

.A110 In some circumstances, the firm may use resources that are provided by a service provider, particularly in circumstances in which the firm does not have access to the appropriate resources internally. Notwithstanding that a firm may use resources from a service provider, the firm remains responsible for its system of quality management.

.A111 Examples of resources from a service provider include the following:

- Individuals engaged to perform the firm's monitoring activities or engagement quality reviews, or to provide consultation on technical matters
- A commercial IT application used to perform audit engagements
- Individuals performing procedures on the firm's engagements; for example, component auditors from firms not within the firm's network or individuals engaged to attend a physical inventory count at a remote location
- An auditor's external specialist used by the firm to assist the engagement team in obtaining audit evidence

.A112 In identifying and assessing quality risks, the firm is required to obtain an understanding of the conditions, events, circumstances, actions, or inactions that may adversely affect the achievement of the quality objectives, which includes conditions, events, circumstances, actions, or inactions relating to service providers. In doing so, the firm may consider the nature

¹⁵ Paragraphs 25–28 of SAS No. 146. [Footnote renumbered by the issuance of SQMS No. 3, March 2023.]

of the resources provided by service providers, how and the extent to which they will be used by the firm, and the general characteristics of the service providers used by the firm (for example, the varying types of other professional services firms that are used) to identify and assess quality risks related to the use of such resources.

.A113 In determining whether a resource from a service provider is appropriate for use in the firm's system of quality management or performing engagements, the firm may obtain information about the service provider and the resource it provides from a number of sources. The following are matters the firm may consider:

- The related quality objective and quality risks. For example, in the case of a methodology from a service provider, there may be quality risks related to the quality objective in [paragraph .33g](#), such as a quality risk that the service provider does not update the methodology to reflect changes in professional standards and applicable legal and regulatory requirements.
- The nature and scope of the resources and the conditions of the service (for example, in relation to an IT application, how often updates will be provided, limitations on the use of the IT application, and how the service provider addresses confidentiality of data).
- The extent to which the resource is used across the firm, how the resource will be used by the firm, and whether it is suitable for that purpose.
- The extent of customization of the resource for the firm.
- The firm's previous use of the service provider.
- The service provider's experience in the industry and reputation in the market.
- The results of attestation engagements performed by independent third parties on the resource (for example, assurance engagements on quality control materials or reports on service organization controls).

.A114 The firm may have a responsibility to take further actions in using the resource from a service provider so that the resource functions effectively. For example, the firm may need to communicate information to the service provider in order for the resource to function effectively or, in relation to an IT application, the firm may need to have supporting IT infrastructure and IT processes in place.

.A115 The evaluation of a service provider from a firm not within the firm's network that is used as a component auditor may be different than that of a service provider engaged directly by the firm. For example,

in understanding the competency of the component auditor to perform the engagement, it may not be necessary or practicable for the firm to obtain an understanding of how the component auditor updates its methodology to reflect changes in professional standards. Rather, the firm could perform procedures such as review of results of regulatory inspections, transparency or audit quality information published by the component auditor's firm, or evaluation of the reputation of the component auditor.

Information and Communication (Ref: [par. .34](#))

.A116 Obtaining, generating, or communicating information is generally an ongoing process that involves all personnel and encompasses the dissemination of information within the firm and externally. Information and communication are pervasive to all components of the system of quality management.

The Firm's Information System (Ref: [par. .34a](#))

.A117 Reliable and relevant information includes information that is accurate, complete, timely, and valid to enable the proper functioning of the firm's system of quality management and to support decisions regarding the system of quality management.

.A118 The information system may include the use of manual or IT elements, which affect the manner in which information is identified, captured, processed, maintained, and communicated. The procedures to identify, capture, process, maintain, and communicate information may be enforced through IT applications and in some cases may be embedded within the firm's responses for other components. In addition, digital records may replace or supplement physical records.

.A119 An example of scalability is that less complex firms with fewer personnel and direct involvement of leadership may not need rigorous policies and procedures that specify how information should be identified, captured, processed, and maintained.

Communication Within the Firm (Ref: [par. .34b–c](#))

.A120 The firm may recognize and reinforce the responsibility of personnel and engagement teams to exchange information with the firm and one another by establishing communication channels to facilitate communication across the firm. Examples of communication among the firm, engagement teams, and other individuals include the following:

- The firm communicates the responsibility for implementing the firm's responses to personnel and engagement teams.

- The firm communicates changes to the system of quality management to personnel and engagement teams to the extent that the changes are relevant to their responsibilities and enables personnel and engagement teams to take prompt and appropriate action in accordance with their responsibilities.
- The firm communicates information that is obtained during the firm's acceptance and continuance process that is relevant to engagement teams in planning and performing engagements.
- Engagement teams communicate the following information to the firm:
 - Information about the client that is obtained during the performance of an engagement that may have caused the firm to decline the client relationship or specific engagement had that information been known prior to accepting or continuing the client relationship or specific engagement
 - Information about the operation of the firm's responses (for example, concerns about the firm's processes for assigning personnel to engagements) which, in some cases, may indicate a deficiency in the firm's system of quality management
- Engagement teams communicate information to the engagement quality reviewer or individuals providing consultation.
- The group auditor communicates matters to component auditors in accordance with the firm's policies or procedures, including matters related to quality management at the engagement level.
- The individual or individuals assigned operational responsibility for compliance with independence requirements communicate to relevant personnel and engagement teams changes in the independence requirements and the firm's policies or procedures to address such changes.

[As amended, effective concurrently with a firm's implementation of SQMS Nos. 1 and 2 on December 15, 2025, by SQMS No. 3.]

Communication With External Parties

Communication to or Within the Firm's Network and to Service Providers (Ref: [par. .34d\(i\)](#))

- .A121** In addition to the firm communicating information to or within the firm's network or to a service provider, the firm may need to obtain information from the network, a network firm, or a service provider that supports the firm in the design, implementation, and operation of

its system of quality management. For example, the firm may obtain information from the network or other network firms about clients of other network firms when there are independence requirements that affect the firm.

Communication With Others External to the Firm

(Ref: [par. .34d\(ii\)](#))

- .A122** Examples of when law, regulation, or professional standards may require the firm to communicate information to external parties include the following:

- The firm becomes aware of noncompliance with laws and regulations by a client, and relevant ethical requirements require the firm to report the noncompliance with laws and regulations to an appropriate authority outside the client entity or to consider whether such reporting is an appropriate action in the circumstances.
- Law or regulation requires the firm to publish a transparency report and specifies the nature of the information that is required to be included in the transparency report.
- Securities law or regulation requires the firm to communicate certain matters to those charged with governance.

Paragraphs .A131–.A135 address communications to support external parties' understanding of the system of quality management beyond those required by law, regulation, or professional standards.

- .A123** In some cases, law or regulation may preclude the firm from communicating information related to its system of quality management externally. Examples of when the firm may be precluded from communicating information externally include the following:

- Confidentiality law or regulation prohibits disclosure of certain information
- Law, regulation, or relevant ethical requirements include provisions addressing the duty of confidentiality

Specified Responses (Ref: [par. .35](#))

- .A124** The specified responses may address multiple quality risks related to more than one quality objective across different components. For example, policies or procedures for complaints and allegations may address quality risks related to quality objectives in resources (for example, personnel's commitment to quality), relevant ethical requirements, and governance and leadership.

Relevant Ethical Requirements (Ref: [par. .35a–b](#))

- .A125** Relevant ethical requirements may contain provisions regarding the identification and evaluation of threats and how they should be addressed. For example, the AICPA code provides a conceptual framework for this purpose and, in applying the conceptual framework, requires that the firm use the reasonable and informed third-party test.
- .A126** Relevant ethical requirements may specify how the firm is required to respond to a breach. For example, the “Breach of an Independence” interpretation (ET sec. 1.298.010) of the “Independence Rule” (ET sec. 1.200.001) contains guidance addressing a breach of an independence interpretation of the AICPA code, which also contains guidance addressing a breach of any other provision of the AICPA code.
- .A127** Matters the firm may address relating to breaches of the relevant ethical requirements include the following:
- The communication of breaches of the relevant ethical requirements to appropriate personnel
 - The evaluation of the significance of a breach and its effect on compliance with relevant ethical requirements
 - The actions to be taken to satisfactorily address the consequences of a breach, including that such actions be taken as soon as practicable
 - Determining whether to report a breach to external parties, such as those charged with governance of the entity to which the breach relates or an external oversight authority
 - Determining the appropriate actions to be taken in relation to the individual or individuals responsible for the breach

Complaints and Allegations (Ref: [par. .35c](#))

- .A128** Establishing policies or procedures for dealing with complaints and allegations may assist the firm in preventing engagement reports from being issued that are inappropriate. It also may assist the firm in
- identifying and dealing with individuals, including leadership, who do not act or behave in a manner that demonstrates a commitment to quality and supports the firm’s commitment to quality, or
 - identifying deficiencies in the system of quality management.
- .A129** Complaints and allegations may be made by personnel or others external to the firm (for example, clients, component auditors, or individuals within the firm’s network).

Information That Becomes Known Subsequent to Accepting or Continuing a Client Relationship or Specific Engagement (Ref: [par. .35d](#))

- .A130** Information that becomes known subsequent to accepting or continuing a client relationship or specific engagement may
- have existed at the time of the firm’s decision to accept or continue the client relationship or specific engagement, and the firm was not aware of such information, or
 - relate to new information that has arisen since the decision to accept or continue the client relationship or specific engagement.
- .A131** Examples of matters addressed in the firm’s policies or procedures for circumstances in which information becomes known subsequent to accepting or continuing a client relationship or specific engagement that may have affected the firm’s decision to accept or continue a client relationship or specific engagement include the following:
- Undertaking consultation within the firm or with legal counsel
 - Considering whether there is a professional, legal, or regulatory requirement for the firm to continue the engagement
 - Discussing with the appropriate level of the client’s management and with those charged with governance or the engaging party the action that the firm might take based on the relevant facts and circumstances
 - When it is determined that withdrawal is an appropriate action:
 - Informing the client’s management and those charged with governance or the engaging party of this decision and the reasons for the withdrawal
 - Considering whether there is a professional, legal, or regulatory requirement for the firm to report the withdrawal from the engagement, or from both the engagement and the client relationship, together with the reasons for the withdrawal, to regulatory authorities
- .A132** In some circumstances, law or regulation may impose an obligation on the firm to accept or continue a client engagement.

.A133 Examples of matters addressed in the firm's policies or procedures in circumstances in which the firm is obligated to accept or continue an engagement, or the firm is unable to withdraw from an engagement, and the firm is aware of information that would have caused the firm to decline or discontinue the engagement, include the following:

- The firm considers the effect of the information on the performance of the engagement.
- The firm communicates the information to the engagement partner and requests the engagement partner to increase the extent and frequency of the direction and supervision of the engagement team members and review of their work.
- The firm assigns more experienced personnel to the engagement.
- The firm determines that an engagement quality review should be performed.

Communication With External Parties (Ref: [par. .35e](#))

.A134 The firm's ability to maintain stakeholder confidence in the quality of its engagements may be enhanced through relevant, reliable, and transparent communication by the firm about the activities that it has undertaken to address quality and the effectiveness of those activities.

.A135 External parties who may use information about the firm's system of quality management, and the extent of their interest in the firm's system of quality management, may vary based on the nature and circumstances of the firm and its engagements.

.A136 Examples of external parties who may use information about the firm's system of quality management include the following:

- Management or those charged with governance of the firm's clients may use the information to determine whether to appoint the firm to perform an engagement.
- External oversight authorities may have indicated a desire for the information to support their responsibilities in monitoring the quality of engagements across a jurisdiction and in understanding the work of firms.
- Other firms who use the work of the firm in performing engagements (for example, in relation to a group audit) may have requested such information.
- Other users of the firm's engagement reports, such as investors who use engagement reports in their decision making, may have indicated a desire for the information.

.A137 The information about the system of quality management provided to external parties, including information communicated to those charged with governance about how the system of quality management supports the consistent performance of quality engagements, may address such matters as the following:

- The nature and circumstances of the firm, such as the organizational structure, business model, strategy, and operating environment
- The firm's governance and leadership, such as
 - its culture;
 - how it demonstrates a commitment to quality; and
 - how roles, responsibilities, and authority with respect to the system of quality management are assigned
- How the firm fulfills its responsibilities in accordance with relevant ethical requirements, including those related to independence
- Factors that contribute to quality engagements; for example, such information may be presented in the form of engagement quality indicators with narrative to explain the indicators
- The results of the firm's monitoring activities and external inspections and how the firm has remediated identified deficiencies or is otherwise responding to them
- The evaluation undertaken in accordance with [paragraphs .54–.55](#) of whether the system of quality management provides the firm with reasonable assurance that the objectives of the system are being achieved and the conclusion thereon, including the basis for the judgments made in evaluating and concluding
- How the firm has responded to emerging developments and changes in the circumstances of the firm or its engagements, including how the system of quality management has been adapted to respond to such changes
- The relationship between the firm and the network, the overall structure of the network, a description of network requirements and network services, the responsibilities of the firm and the network (including that the firm is ultimately responsible for the system of quality management), and information about the overall scope and results of network monitoring activities across the network firms

Determining When It Is Appropriate to Communicate With External Parties (Ref: [par. .35e\(i\)](#))

- .A138** The firm's determination of when it is appropriate to communicate with external parties about the firm's system of quality management is a matter of professional judgment and may be influenced by matters such as the following:
- The types of engagements performed by the firm
 - The types of entities for which such engagements are undertaken; for example, entities that may have public interest or public accountability characteristics, such as
 - entities that hold a significant amount of assets in a fiduciary capacity for a large number of stakeholders, including financial institutions, such as certain banks, insurance companies, and pension funds;
 - entities with a high public profile or whose management or owners have a high public profile; and
 - entities with a large number and wide range of stakeholders.
 - The nature and circumstances of the firm
 - The nature of the firm's operating environment, such as customary business practice in the firm's jurisdiction and the characteristics of the financial markets in which the firm operates
 - The extent to which the firm has already communicated with external parties in accordance with law or regulation (that is, whether further communication is needed and, if so, the matters to be communicated)
 - The expectations of stakeholders in the firm's jurisdiction, including the understanding and interest that external parties have expressed about the engagements undertaken by the firm, and the firm's processes in performing the engagements
 - Jurisdictional trends
 - The information that is already available to external parties
 - How external parties may use the information, and their general understanding of matters related to firms' systems of quality management and engagements performed by the firm in its accounting and auditing practice

- The public interest benefits of external communication and whether it would reasonably be expected to outweigh the costs (monetary or otherwise) of such communication

The preceding matters may also affect the information provided by the firm in the communication and the nature, timing, and extent and appropriate form of communication.

- .A139** AU-C section 260, *The Auditor's Communication With Those Charged With Governance*, deals with the auditor's responsibility to communicate with those charged with governance in an audit of financial statements and addresses the auditor's determination of the appropriate person or persons within the entity's governance structure with whom to communicate¹⁶ and the communication process.¹⁷ In some circumstances, it may be appropriate to include information about the firm's system of quality management in those communications with those charged with governance (or when performing other engagements, for example, review or examination engagements). How the communication with those charged with governance is undertaken (that is, by the firm or the engagement team) may depend on the firm's policies or procedures and the circumstances of the engagement.

Considerations for Engagements for Governmental Organizations

- .A140** The firm may determine it is appropriate to communicate to those charged with governance of a governmental organization about how the firm's system of quality management supports the consistent performance of quality engagements, taking into account the size and complexity of the governmental organization, the range of its stakeholders, the nature of the services it provides, and the roles and responsibilities of those charged with governance.

Nature, Timing, and Extent and Appropriate Form of Communication With External Parties (Ref: [par. .35e\(ii\)](#))

- .A141** The firm may consider the following attributes in preparing information that is communicated to external parties:
- The information is specific to the circumstances of the firm. Relating the matters in the firm's communication directly to the specific circumstances of the firm may help to minimize the potential that such information becomes overly standardized and less useful over time.

¹⁶ Paragraphs .07–.09 of AU-C section 260, *The Auditor's Communication With Those Charged With Governance*. [Footnote renumbered by the issuance of SQMS No. 3, March 2023.]

¹⁷ Paragraphs .15–.20 of AU-C section 260. [Footnote renumbered by the issuance of SQMS No. 3, March 2023.]

- The information is presented in a clear and understandable manner, and the manner of presentation is neither misleading nor would inappropriately influence the users of the communication (for example, the information is presented in a manner that is appropriately balanced toward positive and negative aspects of the matter being communicated).
- The information is accurate and complete in all material respects and does not contain information that is misleading.
- The information takes into consideration the information needs of the users for whom it is intended. In considering the information needs of the users, the firm may consider matters such as the level of detail that users would find meaningful and whether users have access to relevant information through other sources (for example, the firm's website).

.A142 The firm uses professional judgment in determining, in the circumstances, the appropriate form of communication with the external party, including communication with those charged with governance when performing an audit of financial statements of listed entities, which may be made orally or in writing. Accordingly, the form of communication may vary.

Examples of forms of communication to external parties include the following:

- A publication such as a transparency report or audit quality report
- Targeted written communication to specific stakeholders (for example, information about the results of the firm's monitoring and remediation process)
- Direct conversations and interactions with the external party (for example, discussions between the engagement team and those charged with governance)
- A web page
- Other forms of digital media, such as social media, or interviews or presentations via webcast or video

Engagements Subject to an Engagement Quality Review

Engagement Quality Review Required by Law or Regulation (Ref: par. .35f(i))

.A143 Law or regulation may require an engagement quality review to be performed, for example, for audit engagements for entities that

- are *public interest entities* as defined in a particular jurisdiction,

- are governmental organizations or recipients of government funding, or entities with public accountability,
- operate in certain industries (for example, financial institutions such as banks, insurance companies, and pension funds),
- meet a specified asset threshold, or
- are under the management of a court or judicial process (for example, liquidation).

Engagement Quality Review as a Response to Address One or More Quality Risks (Ref: par. .35f(ii))

.A144 The firm's understanding of the conditions, events, circumstances, actions, or inactions that may adversely affect the achievement of the quality objectives as required by [paragraph .26a\(ii\)](#) relates to the nature and circumstances of the engagements performed by the firm. In designing and implementing responses to address one or more quality risks, the firm may determine that an engagement quality review is an appropriate response based on the reasons for the assessments given to the quality risks.

.A145 Criteria established by the firm to determine whether an engagement quality review is an appropriate response for one or more quality risks may relate to the types of engagements performed by the firm and reports to be issued, and the types of entities for which engagements are undertaken. Examples of conditions, events, circumstances, actions, or inactions giving rise to such quality risks include the following:

Those relating to the types of engagements performed by the firm and reports to be issued:

- Engagements that involve a high level of complexity or judgment, such as the following:
 - Audits of financial statements for entities operating in an industry that typically has accounting estimates with a high degree of estimation uncertainty (for example, certain large financial institutions or mining entities) or for entities for which uncertainties exist related to events or conditions that may cast significant doubt on their ability to continue as a going concern
 - Assurance engagements that require specialized skills and knowledge in measuring or evaluating the underlying subject matter against the applicable criteria (for example, a greenhouse gas statement in which there are significant uncertainties associated with the quantities reported therein)

- Engagements on which issues have been encountered, such as audit engagements with recurring internal or external inspection findings, unremediated significant deficiencies in internal control, or a material restatement of comparative information in the financial statements
- Engagements for which unusual circumstances have been identified during the firm's acceptance and continuance process (for example, a new client that had a disagreement with its previous auditor or assurance practitioner)
- Engagements that involve reporting on financial or nonfinancial information that is expected to be included in a regulatory filing and that may involve a higher degree of judgment, such as pro forma financial information to be included in a prospectus

Those relating to the types of entities for which engagements are undertaken:

- Entities in emerging industries or for which the firm has no previous experience
 - Entities for which concerns were expressed in communications from regulators
 - Entities that may have public interest or public accountability characteristics, such as the following:
 - Entities that hold a significant amount of assets in a fiduciary capacity for a large number of stakeholders, including financial institutions such as certain banks, insurance companies, and pension funds for which an engagement quality review is not otherwise required by law or regulation
 - Entities with a high public profile or whose management or owners have a high public profile
 - Entities with a large number and wide range of stakeholders
 - Governmental organizations
 - Due to their size and complexity, the range of their stakeholders or the nature of the services they provide
 - Due to the complexity, and importance to users, of additional reporting requirements established by law or regulation (for example, a separate report on instances of noncompliance with law or regulation to the legislature or other governing body or communicating such instances in the auditor's report on the financial statements)
- .A146** The firm's responses to address quality risks may include other forms of engagement reviews that are not an engagement quality review. For example, for audits of financial statements, the firm's responses may include reviews of the engagement team's procedures relating to significant risks, or reviews of certain significant judgments, by personnel who have specialized technical expertise. In some cases, these other types of engagement reviews may be undertaken in addition to an engagement quality review.
- .A147** In some cases, the firm may determine that there are no audits or other engagements for which an engagement quality review or another form of engagement review is an appropriate response to address the quality risks.

Monitoring and Remediation Process (Ref: [par. .36–.48](#))

.A148 In addition to enabling the evaluation of the system of quality management, the monitoring and remediation process facilitates the proactive and continual improvement of engagement quality and the system of quality management. Examples follow:

- Given the inherent limitations of a system of quality management, the firm's identification of deficiencies is not unusual, and it is an important aspect of the system of quality management because prompt identification of deficiencies enables the firm to remediate them in a timely and effective manner and contributes to a culture of continual improvement.
- The monitoring activities may provide information that enables the firm to prevent a deficiency through responding to a finding that could, over a period of time, lead to a deficiency.

Designing and Performing Monitoring Activities (Ref: [par. .38–.39](#))

.A149 The firm's monitoring activities may comprise a combination of ongoing monitoring activities and periodic monitoring activities. Ongoing monitoring activities are generally routine activities built into the firm's processes and performed on a real-time basis. Periodic monitoring activities are conducted at certain intervals by the firm. In most cases, ongoing monitoring activities provide information about the system of quality management in a timelier manner.

.A150 Monitoring activities may include the inspection of in-process engagements. Inspections of engagements are designed to monitor whether an aspect of the system of quality management is designed, implemented, and operating in the manner intended. In some circumstances, the system of quality management may include responses that are designed to review engagements while they are in the process of being performed that appear similar in nature to an inspection of in-process engagements (for example, reviews that are designed to detect

failures or shortcomings in the system of quality management so that they can prevent a quality risk from occurring). The purpose of the activity drives its design and implementation and where it fits within the system of quality management (that is, whether it is an inspection of an in-process engagement that is a monitoring activity or a review of an engagement that is a response to address a quality risk).

.A151 The nature, timing, and extent of the monitoring activities may also be affected by other matters, including

- the size, structure, and organization of the firm,
- the involvement of the firm's network in monitoring activities, and
- the resources that the firm intends to use to enable monitoring activities, such as the use of IT applications.

.A152 When performing monitoring activities, the firm may determine that changes to the nature, timing, and extent of the monitoring activities are needed, such as when findings indicate the need for more extensive monitoring activities.

The Design of the Firm's Risk Assessment Process and Monitoring and Remediation Process (Ref: [par. .38c](#))

.A153 How the firm's risk assessment process is designed (for example, a centralized or decentralized process, or the frequency of review) may affect the nature, timing, and extent of the monitoring activities, including monitoring activities over the firm's risk assessment process.

.A154 How the firm's monitoring and remediation process is designed (that is, the nature, timing, and extent of the monitoring and remediation activities, taking into account the nature and circumstances of the firm) may affect the monitoring activities undertaken by the firm to determine whether the monitoring and remediation process is achieving the intended purpose as described in [paragraph .36](#).

.A155 An example of scalability to demonstrate how the monitoring activities for the monitoring and remediation process may differ in firms of different complexity is as follows:

- In a less complex firm, the monitoring activities may be simple because information about the monitoring and remediation process may be readily available in the form of leadership's knowledge, based on their frequent interaction with the system of quality management, of the nature, timing, and extent of the monitoring activities undertaken, the results of the monitoring activities, and the firm's actions to address the results.

- In a more complex firm, the monitoring activities for the monitoring and remediation process may be specifically designed to determine that the monitoring and remediation process is providing relevant, reliable, and timely information about the system of quality management, and responding appropriately to identified deficiencies.

Changes in the System of Quality Management (Ref: [par. .38d](#))

.A156 Changes in the system of quality management may include

- changes to address an identified deficiency in the system of quality management, and
- changes to the quality objectives, quality risks, or responses as a result of changes in the nature and circumstances of the firm and its engagements.

When changes occur, previous monitoring activities undertaken by the firm may no longer provide the firm with information to support the evaluation of the system of quality management and, therefore, the firm's monitoring activities may include monitoring of those areas of change.

Previous Monitoring Activities (Ref: [par. .38e](#) and [.44b](#))

.A157 The results of the firm's previous monitoring activities may indicate areas of the system where a deficiency may arise, particularly areas where there is a history of identified deficiencies.

.A158 Previous monitoring activities undertaken by the firm may no longer provide the firm with information to support the evaluation of the system, including on areas of the system of quality management that have not changed, particularly when time has elapsed since the monitoring activities were undertaken.

Other Relevant Information (Ref: [par. .38f](#))

.A159 In addition to the sources of information indicated in [paragraph .38f](#), other relevant information may include the following:

- Information communicated by the firm's network in accordance with paragraphs .51c and .52b about the firm's system of quality management, including the network requirements or network services that the firm has included in its system of quality management
- Information communicated by a service provider about the resources the firm uses in its system of quality management
- Information from regulators about the entities for whom the firm performs engagements that is made available to the firm, such as information from a securities regulator about an entity for whom the firm

performs engagements (for example, irregularities in the entity's financial statements)

.A160 The results of external inspections or other relevant information, both internal and external, may indicate that previous monitoring activities undertaken by the firm failed to identify a deficiency in the system of quality management. This information may affect the firm's consideration of the nature, timing, and extent of the monitoring activities.

.A161 External inspections are not a substitute for the firm's internal monitoring activities. Nevertheless, the results of external inspections inform the nature, timing, and extent of the monitoring activities.

Engagement Inspections (Ref: [par. .39](#))

.A162 Examples of matters in paragraph .38 that may be considered by the firm in selecting completed engagements for inspection include the following:

- In relation to the conditions, events, circumstances, actions, or inactions giving rise to the quality risks:
 - The types of engagements performed by the firm, and the extent of the firm's experience in performing the type of engagement
 - The types of entities for which engagements are undertaken, such as the following:
 - Entities operating in emerging industries
 - Entities operating in industries associated with a high level of complexity or judgment
 - Entities operating in an industry that is new to the firm
 - The tenure and experience of engagement partners
- The results of previous inspections of completed engagements, including for each engagement partner
- In relation to other relevant information:
 - Complaints or allegations about an engagement partner
 - The results of external inspections, including for each engagement partner
 - The results of the firm's evaluation of each engagement partner's commitment to quality

.A163 The firm may undertake multiple monitoring activities, other than inspection of completed engagements, that focus on determining whether engagements have complied with policies or procedures. These monitoring activities may be undertaken on certain engagements or engagement partners. The nature and extent of these monitoring activities, and the results, may be used by the firm in determining the following:

- How often to select completed engagements for inspection, and which completed engagements to select, based on the factors described in [paragraph .A159](#)
- Which engagement partners to select for inspection, and how frequently to select an engagement partner for inspection, based on factors such as how long it has been since the engagement partner was subject to inspection, the results of previous inspections of the engagement partner, or the engagement partner's experience with performing engagements at different levels of service, in new industries, or with complex financial reporting matters
- Which aspects of the engagement to consider when performing the inspection of completed engagements

For example, if the firm has undertaken inspections of in-process engagements,

- the firm may determine it appropriate to reduce the extent of selection of completed engagements for inspection;
- the results of the inspections of in-process engagements may indicate areas of risk that may affect which completed engagements are selected for inspection; or
- the results of the inspections of in-process engagements may identify negative quality issues that prompt the firm to shorten the inspection cycle or expand the extent of completed engagement inspections.

.A164 The inspection of completed engagements for engagement partners on a cyclical basis may assist the firm in monitoring whether engagement partners have fulfilled their overall responsibility for managing and achieving quality on the engagements to which they are assigned.

.A165 Examples of policies and procedures that a firm may establish to apply a cyclical basis for the inspection of completed engagements for each engagement partner include the following policies or procedures that

- set forth the standard period of the inspection cycle, such as the inspection of a completed engagement for each engagement partner performing audits of financial statements once every, for example, three years, and for all other engagement partners, once every, for example, five years.
- set out the criteria for selecting completed engagements, including that for an engagement partner performing audits of financial statements, the engagements selected include an audit engagement.

- address the selection of engagement partners in a manner that is unpredictable.
- address when it is necessary or appropriate to select engagement partners more, or less, frequently than the standard period set out in the policy. Examples follow:

- The firm may select engagement partners more frequently than the standard period set out in the firm's policy when the following apply:
 - Multiple deficiencies have been identified by the firm that have been evaluated as severe, and the firm determines that a more frequent cyclical inspection is needed across all engagement partners.
 - The engagement partner performs engagements for entities operating in a certain industry in which there are high levels of complexity or judgment.
 - An engagement performed by the engagement partner has been subject to other monitoring activities, and the results of the other monitoring activities were unsatisfactory.
 - The engagement partner has performed an engagement for an entity operating in an industry in which the engagement partner has limited experience.
 - The engagement partner has limited experience in performing that level of service engagements.
 - The engagement partner is a newly appointed engagement partner or has recently joined the firm from another firm or another jurisdiction.
- The firm may defer the selection of the engagement partner (for example, deferring for a year beyond the standard period set out in the firm's policy) when
 - engagements performed by the engagement partner have been subject to other monitoring activities during the standard period set out in the firm's policy, and
 - the results of the other monitoring activities provide sufficient information about the engagement partner; that is, performing the inspection of completed engagements would unlikely provide the firm with further information about the engagement partner.

.A166 The matters considered in an inspection of an engagement depend on how the inspection will be used to monitor the system of quality management.

Ordinarily, the inspection of an engagement includes determining that responses that are implemented at the engagement level (for example, the firm's policies and procedures in respect of engagement performance) have been implemented as designed and are operating effectively.

The Relationship of Peer Review to Monitoring

.A167 A peer review is not a substitute for all monitoring activities. However, because the objective of a peer review is similar to that of an inspection, the firm's quality management policies or procedures may provide that a peer review conducted under standards established by the AICPA may be a substitute for the inspection of engagement documentation, reports, and clients' financial statements for some or all engagements for the period covered by the peer review.

.A168 A peer review may result in findings or deficiencies. However, the definitions of *findings and deficiencies* in this section are different from the definitions of those terms in *AICPA Standards for Performing and Reporting on Peer Reviews*.¹⁸ Accordingly, findings and deficiencies may be evaluated differently for peer review purposes than for purposes of this section. Findings or deficiencies identified in a firm's system of quality management may not necessarily result in a peer review finding or deficiency; similarly, peer review findings or deficiencies may not necessarily equate to findings or deficiencies in a firm's system of quality management. As with other items identified in the firm's monitoring activities, the firm would need to assess any peer review findings or deficiencies to determine the impact on the firm's evaluation of its system of quality management.

Individuals Performing the Monitoring Activities (Ref: [par. .40](#))

.A169 It is important that individuals performing the monitoring activities have the competence, capabilities, including sufficient time, and objectivity to perform the monitoring activities. Each of these attributes is equally essential. In some circumstances, there may not be personnel who have the competence, capabilities, including sufficient time, and objectivity to perform the monitoring activities. In these circumstances, the firm may use network services or a service provider to perform the monitoring activities.

.A170 The provisions of relevant ethical requirements are relevant in designing the policies or procedures addressing the objectivity of the individuals performing the monitoring activities. A self-review threat may arise when an individual who performs an inspection of an

¹⁸ Paragraph .11 of PR-C section 100, *Concepts Common to All Peer Reviews*. [Footnote renumbered by the issuance of SQMS No. 3, March 2023.]

engagement was an engagement team member or the engagement quality reviewer of that engagement. A self-review threat may also arise when an individual involved in operating the response to a quality risk is performing the monitoring of that response. For example, a self-review threat may arise if an individual responsible for accepting client engagements is also responsible for monitoring compliance with the firm's client acceptance policies and procedures.

.A171 This section does not preclude an individual from performing monitoring activities, including inspections, of their own compliance with a quality management system. However, such self-inspections may be less effective than compliance inspections by another qualified individual. When an individual inspects their own compliance with the firm's policies and procedures, the firm has a higher risk that noncompliance with policies and procedures will not be detected or reported. To effectively monitor one's own compliance, it is necessary that an individual be able to critically review their own performance, assess their own strengths and weaknesses, and maintain an attitude of continual improvement.

.A172 Responses that may provide safeguards against the self-review threat and lessen the likelihood of deficiencies in the system of quality management include the following actions:

- Fostering a commitment to continuing professional education and providing effective training programs so that personnel stay current on accounting, auditing, and quality management standards
- Providing training on how to perform monitoring inspections and requiring the use of peer review or other inspection checklists
- Requiring the passage of time after the completion of an engagement before self-inspections are performed

.A173 The firm may have responses in place to address quality risks other than the self-review threat that may be particularly helpful when self-inspections are performed, such as the following actions:

- Establishing strong client acceptance and engagement continuance policies that address the risk of the firm accepting or continuing engagements it doesn't have the competency and resources to perform
- Establishing consultation policies that require engagement teams to consult when they encounter technical accounting and auditing difficulties
- Taking corrective action in response to the results identified by the firm's internal monitoring, engagement quality reviews, peer review results or

other external inspections; for example, inspections by the U.S. Department of Labor

- Requiring the use of an external service provider to perform engagement quality reviews or monitoring activities when
 - deficiencies identified by the firm's monitoring activities, peer reviewers, or other external inspections indicate that self-inspection is not effective, or
 - changes in conditions and the environment within the firm (such as obtaining clients in an industry not previously serviced or significantly changing the size of the firm) occur.

Evaluating Findings and Identifying Deficiencies (Ref: [par. .17](#) and [.41–.42](#))

.A174 The firm accumulates findings from the performance of monitoring activities, external inspections, and other relevant sources. Information accumulated by the firm from the monitoring activities, external inspections, and other relevant sources may reveal other observations about the firm's system of quality management, such as

- actions, behaviors, or conditions that have given rise to positive outcomes in the context of quality or the effectiveness of the system of quality management, or
- similar circumstances in which no findings were noted (for example, engagements in which no findings were noted, and the engagements have a similar nature to the engagements in which findings were noted).

Other observations may be useful to the firm because they may assist the firm in investigating the root causes of identified deficiencies, indicate practices that the firm can support or apply more extensively (for example, across all engagements), or highlight opportunities for the firm to enhance the system of quality management.

.A175 The firm exercises professional judgment in determining whether findings, individually or in combination with other findings, give rise to a deficiency in the system of quality management. In making the judgment, the firm may need to take into account the relative importance of the findings in the context of the quality objectives, quality risks, responses, or other aspects of the system of quality management to which they relate. The firm's judgments may be affected by quantitative and qualitative factors relevant to the findings. In some circumstances, the firm may determine it appropriate to obtain more information about the findings in order to determine whether a deficiency exists. Not all findings, including engagement findings, will be a deficiency.

- .A176** Examples of quantitative and qualitative factors that a firm may consider in determining whether findings give rise to a deficiency include the following:

Quality risks and responses

- If the findings relate to a response, factors such as the following:
 - How the response is designed; for example, the nature of the response, the frequency of its occurrence (if applicable), and the relative importance of the response to addressing the quality risks and achieving the quality objectives to which it relates
 - The nature of the quality risk to which the response relates and the extent to which the findings indicate that the quality risk has not been addressed
 - Whether there are other responses that address the same quality risk and whether there are findings for those responses

Nature of the findings and their pervasiveness

- The nature of the findings; for example, findings related to leadership actions and behaviors may be qualitatively significant, given the pervasive effect this could have on the system of quality management as a whole
- Whether the findings, in combination with other findings, indicate a trend or systemic issue; for example, similar engagement findings that appear on multiple engagements may indicate a systemic issue

Extent of Monitoring Activity and Extent of Findings

- The extent of the monitoring activity from which the findings arose, including the number or size of the selections.
- The extent of the findings in relation to the selection covered by the monitoring activity and in relation to the expected deviation rate; for example, in the case of inspection of engagements, the number of engagements selected in which the findings were identified relative to the total number of engagements selected, and the expected deviation rate set by the firm

- .A177** Evaluating findings and identifying deficiencies and evaluating the severity and pervasiveness of an identified deficiency, including investigating the root causes of an identified deficiency, are part of an iterative and nonlinear process. Examples follow:

- In investigating the root causes of an identified deficiency, the firm may identify a circumstance that has similarities to other circumstances in which there were findings that were not considered deficiencies.

As a result, the firm adjusts its evaluation of the other findings and classifies them as deficiencies.

- In evaluating the severity and pervasiveness of an identified deficiency, the firm may identify a trend or systemic issue that correlates with other findings that are not considered deficiencies. As a result, the firm adjusts its evaluation of the other findings and also classifies them as deficiencies.

- .A178** The results of monitoring activities, results of external inspections, and other relevant information (for example, network monitoring activities or complaints and allegations) may reveal information about the effectiveness of the monitoring and remediation process. For example, the results of external inspections may provide information about the system of quality management that has not been identified by the firm's monitoring and remediation process, which may highlight a deficiency in that process.

Evaluating Identified Deficiencies (Ref: [par. .42](#))

- .A179** Factors the firm may consider in evaluating the severity and pervasiveness of an identified deficiency include the following:

- The nature of the identified deficiency, including the aspect of the firm's system of quality management to which the deficiency relates, and whether the deficiency is in the design, implementation, or operation of the system of quality management
- In the case of identified deficiencies related to responses, whether there are compensating responses to address the quality risk to which the response relates
- The root causes of the identified deficiency
- The frequency with which the matter giving rise to the identified deficiency occurred
- The magnitude of the identified deficiency, how quickly it occurred, and the duration of time that it existed and had an effect on the system of quality management

- .A180** The severity and pervasiveness of identified deficiencies affects the evaluation of the system of quality management that is undertaken by the individual or individuals assigned ultimate responsibility and accountability for the system of quality management.

Root Cause of the Identified Deficiencies (Ref: [par. .42a](#))

- .A181** The objective of investigating the root causes of identified deficiencies is to understand the underlying circumstances that caused the deficiencies to enable the firm to

- evaluate the severity and pervasiveness of the identified deficiency and
- appropriately remediate the identified deficiency.

Performing a root cause analysis involves the exercise of professional judgment based on the evidence available by those performing the assessment.

.A182 The nature, timing, and extent of the procedures undertaken to understand the root causes of an identified deficiency may also be affected by the nature and circumstances of the firm, such as the following:

- The complexity and operating characteristics of the firm.
- The size of the firm.
- The geographical dispersion of the firm.
- How the firm is structured or the extent to which the firm concentrates or centralizes its processes or activities. For example, in the case of a less complex firm with a single location, the firm's procedures to understand the root causes of a deficiency may be simple because the information to inform the understanding may be readily available and concentrated, and the root causes may be more apparent. In the case of a more complex firm with multiple locations, the procedures to understand the root causes of a deficiency may include using individuals specifically trained on investigating the root causes of identified deficiencies and developing a methodology with more formalized procedures for identifying root causes.
- The nature of the identified deficiency. For example, the firm's procedures to understand the root causes of an identified deficiency may be more rigorous in circumstances when an engagement report related to an audit of financial statements was issued that was inappropriate, or the identified deficiency relates to leadership's actions and behaviors regarding quality.
- The possible severity of the identified deficiency. For example, the firm's procedures to understand the root causes of an identified deficiency may be more rigorous in circumstances in which the deficiency has been identified across multiple engagements, or there is an indication that policies or procedures have high rates of noncompliance.

.A183 In investigating the root causes of identified deficiencies, the firm may consider why deficiencies did not arise in other circumstances that are of a similar nature to the matter to which the identified deficiency relates. Such information may also be useful in determining how to remediate an identified deficiency.

For example, the firm may determine that a deficiency exists because similar findings have occurred across multiple engagements. However, the findings have not occurred in several other engagements within the same population being tested. By contrasting the engagements, the firm concludes that the root cause of the identified deficiency is a lack of appropriate involvement by the engagement partners at key stages of the engagements.

.A184 Identifying root causes that are appropriately specific may support the firm's process for remediating identified deficiencies. For example, the firm may identify that engagement teams performing audits of financial statements are failing to obtain sufficient appropriate audit evidence on accounting estimates when management's assumptions have a high degree of subjectivity. Although the firm notes that these engagement teams are not maintaining appropriate professional skepticism, the underlying root cause of this issue may relate to another matter, such as a cultural environment that does not encourage engagement team members to question individuals with greater authority or insufficient direction, supervision, and review of the work performed on the engagements.

.A185 In addition to investigating the root causes of identified deficiencies, the firm may also investigate the root causes of positive outcomes because doing so may reveal opportunities for the firm to improve, or further enhance, the system of quality management.

Responding to Identified Deficiencies (Ref: [par. .43](#))

.A186 The nature, timing, and extent of remedial actions may depend on a variety of other factors, including the following:

- The root causes
- The severity and pervasiveness of the identified deficiency and, therefore, the urgency with which it needs to be addressed
- The effectiveness of the remedial actions in addressing the root causes, such as whether the firm needs to implement more than one remedial action in order to effectively address the root causes, or needs to implement remedial actions as interim measures until the firm is able to implement more effective remedial actions

.A187 In some circumstances, the remedial action may include establishing additional quality objectives, or quality risks or responses may be added or modified, because it is determined that they are not appropriate.

.A188 In circumstances in which the firm determines that the root cause of an identified deficiency relates to a resource provided by a service provider, the firm may also

- consider whether to continue using the resource provided by the service provider, or
- communicate the matter to the service provider.

The firm is responsible for addressing the effect of the identified deficiency related to a resource provided by a service provider on the system of quality management and taking action to prevent the deficiency from recurring with respect to the firm's system of quality management. However, the firm is not ordinarily responsible for remediating the identified deficiency on behalf of the service provider or further investigating the root cause of the identified deficiency at the service provider.

Findings About a Particular Engagement (Ref: [par. .46](#))

.A189 AU-C section 585, *Consideration of Omitted Procedures After the Report Release Date*, addresses the auditor's responsibilities in circumstances in which procedures were omitted, or the report issued is inappropriate. In such circumstances relating to other assurance and attest engagements, the action taken by the firm may include the following:

- Consulting with appropriate individuals regarding the appropriate action
- Discussing the matter with management of the entity or those charged with governance
- Performing the omitted procedures

The actions taken by the firm do not relieve the firm of the responsibility to take further actions relating to the finding in the context of the system of quality management, including evaluating the findings to identify deficiencies and, when a deficiency exists, investigating the root causes of the identified deficiency.

Ongoing Communication Related to the Monitoring and Remediation (Ref: [par. .47](#))

.A190 The information communicated about the monitoring and remediation to the individual or individuals assigned ultimate responsibility and accountability for the system of quality management may be communicated on an ongoing basis or periodically. The individual or individuals may use the information in multiple ways. Examples follow:

- As a basis for further communications to personnel about the importance of quality
- To hold individuals accountable for their roles assigned to them

- To identify key concerns about the system of quality management in a timely manner

The information also provides a basis for the evaluation of the system of quality management, and conclusion thereon, as required by [paragraphs .54–.56](#).

Network Requirements or Network Services (Ref: [par. .49](#))

.A191 In some circumstances, the firm may belong to a network. Networks may establish requirements regarding the firm's system of quality management or may make services or resources available that the firm may choose to implement or use in the design, implementation, and operation of its system of quality management. Such requirements or services may be intended to promote the consistent performance of quality engagements across the firms that belong to the network. The extent to which the network will provide the firm with quality objectives, quality risks, and responses that are common across the network will depend on the firm's arrangements with the network.

.A192 Examples of network requirements include the following:

- Requirements for the firm to include additional quality objectives or quality risks in the firm's system of quality management that are common across the network firms.
- Requirements for the firm to include responses in the firm's system of quality management that are common across the network firms. Such responses designed by the network may include network policies or procedures that specify the leadership roles and responsibilities, including how the firm is expected to assign authority and responsibility within the firm, or resources, such as network-developed methodologies for performing engagements or IT applications.
- Requirements that the firm be subject to the network's monitoring activities. These monitoring activities may relate to network requirements (for example, monitoring that the firm has implemented the network's methodology appropriately) or to the firm's system of quality management in general.

.A193 Examples of network services include services or resources that are optional for the firm to use in its system of quality management or in performing engagements, such as voluntary training programs, use of component auditors or specialists from within the network, or use of a service delivery center established at the network level, or by another network firm or group of network firms.

.A194 The network may establish responsibilities for the firm in implementing the network requirements or network services. Examples follow:

- The firm is required to have certain IT infrastructure and IT processes in place to support an IT application provided by the network that the firm uses in the system of quality management.
- The firm is required to provide firm-wide training on the methodology provided by the network, including when updates are made to the methodology.

.A195 The firm's understanding of the network requirements or network services and the firm's responsibilities relating to the implementation thereof may be obtained through inquiries of, or documentation provided by, the network about matters such as the following:

- The network's governance and leadership
- The procedures undertaken by the network in designing, implementing, and, if applicable, operating, the network requirements or network services
- How the network identifies and responds to changes that affect the network requirements or network services or other information, such as changes in the professional standards or information that indicates a deficiency in the network requirements or network services
- How the network monitors the appropriateness of the network requirements or network services, which may include through the network firms' monitoring activities, and the network's processes for remediating identified deficiencies

Network Requirements or Network Services in the Firm's System of Quality Management (Ref: [par. .50](#))

.A196 The characteristics of the network requirements or network services are a condition, event, circumstance, action, or inaction in identifying and assessing quality risks. An example of a network requirement or network service that gives rise to a quality risk is as follows.

- The network may require the firm to use an IT application for the acceptance and continuance of client relationships and specific engagements that is standardized across the network. This may give rise to a quality risk that the IT application does not address matters in local law or regulation that need to be considered by the firm in accepting and continuing client relationships and specific engagements.

.A197 The purpose of the network requirements may include the promotion of consistent performance of quality engagements across the network firms. The firm may be expected by the network to implement the network requirements; however, the firm may need to adapt or supplement the network requirements such that they are appropriate for the nature and circumstances of the firm and its engagements.

.A198 Examples of how the network requirements or network services may need to be adapted or supplemented include the following:

Network requirement or network service	How the firm adapts or supplements the network requirement or network service
The network requires the firm to include certain quality risks in the system of quality management so that all firms in the network address the quality risks. The network does not provide an assessment of the quality risks.	<p>As part of identifying and assessing quality risks, the firm assesses the quality risks that are required by the network.</p> <p>The firm also designs and implements responses to address the assessed quality risks that are required by the network.</p>
The network requires that the firm design and implement certain responses.	<p>As part of designing and implementing responses, the firm determines</p> <ul style="list-style-type: none"> • which assessed quality risks the responses address. • how the responses required by the network will be incorporated into the firm's system of quality management, given the nature and circumstances of the firm. This may include tailoring the response to reflect the nature and circumstances of the firm and the engagements performed by the firm (for example, tailoring a methodology to include matters related to law or regulation).

Network requirement or network service	How the firm adapts or supplements the network requirement or network service
<p>The firm uses individuals from other network firms as component auditors. Network requirements are in place that drive a high degree of commonality across the network firms' systems of quality management. The network requirements include specific criteria that apply to individuals assigned to work on a component for a group audit.</p>	<p>The firm establishes policies or procedures that require the engagement team to confirm with the component auditor (that is, the other network firm) that the individuals assigned to the component meet the specific criteria set out in the network requirements.</p>

.A199 In some circumstances, in adapting or supplementing the network requirements or network services, the firm may identify possible improvements to the network requirements or network services and may communicate these improvements to the network.

Monitoring Activities Undertaken by the Network on the Firm's System of Quality Management (Ref: [par. .51c](#))

.A200 The results of the network's monitoring activities of the firm's system of quality management may include information such as the following:

- A description of the monitoring activities, including their nature, timing, and extent
- Findings, identified deficiencies, and other observations about the firm's system of quality management (for example, positive outcomes or opportunities for the firm to improve, or further enhance, the system of quality management)
- The network's evaluation of the root causes of the identified deficiencies, the assessed effect of the identified deficiencies, and recommended remedial actions

Monitoring Activities Undertaken by the Network Across the Network Firms (Ref: [par. .52b](#))

.A201 The information from the network about the overall results of the network's monitoring activities undertaken across the network firms' systems of quality management may be an aggregation or summary of the information described in [paragraph .A193](#), including trends and common areas of identified deficiencies across the network, or positive outcomes that may be replicated across the network. Such information may

- be used by the firm
 - in identifying and assessing quality risks, and
 - as part of other relevant information considered by the firm in determining whether deficiencies exist in the network requirements or network services used by the firm in its system of quality management.

- be communicated to group engagement partners, in the context of considering the competence and capabilities of component auditors from a network firm who are subject to common network requirements (for example, common quality objectives, quality risks, and responses).

.A202 In some circumstances, the firm may obtain information from the network about deficiencies identified in a network firm's system of quality management that affects the firm. The network may also gather information from network firms regarding the results of external inspections over network firms' systems of quality management. In some instances, law or regulation in a particular jurisdiction may prevent the network from sharing information with other network firms or may restrict the specificity of such information.

.A203 In circumstances in which the network does not provide the information about the overall results of the network's monitoring activities across the network firms, the firm may take further actions, such as

- discussing the matter with the network, and
- determining the effect on the firm's engagements and communicating the effect to engagement teams.

Deficiencies in Network Requirements or Network Services Identified by the Firm (Ref: [par. .53](#))

.A204 As network requirements or network services used by the firm form part of the firm's system of quality management, they are also subject to the requirements of this section regarding monitoring and remediation. The network requirements or network services may be monitored by the network, the firm, or a combination of both; for example, a network may undertake monitoring activities at a network level for a common methodology. The firm may also monitor the application of the methodology by engagement team members through performing engagement inspections.

- .A205** In designing and implementing the remedial actions to address the effect of the identified deficiency in the network requirements or network services, the firm may
- understand the planned remedial actions by the network, including whether the firm has any responsibilities for implementing the remedial actions, and
 - consider whether supplementary remedial actions need to be taken by the firm to address the identified deficiency and the related root causes, such as when
 - the network has not taken appropriate remedial actions, or
 - the network's remedial actions will take time to effectively address the identified deficiency.

Evaluating the System of Quality Management (Ref: [par. .54](#))

- .A206** The individual or individuals assigned ultimate responsibility and accountability for the system of quality management may be assisted by other individuals in performing the evaluation. Nevertheless, the individual or individuals assigned ultimate responsibility and accountability for the system of quality management remain responsible and accountable for the evaluation.
- .A207** The point in time at which the evaluation is undertaken may depend on the circumstances of the firm and may coincide with the fiscal year-end of the firm or the completion of an annual monitoring cycle.
- .A208** The information that provides the basis for the evaluation of the system of quality management includes the information communicated to the individuals assigned ultimate responsibility and accountability for the system of quality management in accordance with [paragraph .47](#).
- .A209** An example of scalability to demonstrate how the information that provides the basis for the evaluation of the system of quality management may be obtained in firms of different complexity is as follows:
- In a less complex firm, the individual or individuals assigned ultimate responsibility and accountability for the system of quality management may be directly involved in the monitoring and remediation and, therefore, will be aware of the information that supports the evaluation of the system of quality management.
 - In a more complex firm, the individual or individuals assigned ultimate responsibility and accountability for the system of quality management may need to establish processes to collate, summarize, and communicate the information needed to evaluate the system of quality management.

Concluding on the System of Quality Management (Ref: [par. .55](#))

- .A210** In the context of this section, it is intended that the operation of the system as a whole provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved. In concluding on the system of quality management, the individual or individuals assigned ultimate responsibility and accountability for the system of quality management may, in using the results of the monitoring and remediation process, consider the following:
- The severity and pervasiveness of identified deficiencies and the effect on the achievement of the objectives of the system of quality management
 - Whether remedial actions have been designed and implemented by the firm and whether the remedial actions taken up to the time of the evaluation are effective
 - Whether the effect of identified deficiencies on the system of quality management have been appropriately corrected, such as whether further actions have been taken in accordance with [paragraph .46](#)
- .A211** There may be circumstances in which identified deficiencies that are severe (including identified deficiencies that are severe and pervasive) have been appropriately remediated and the effect of them corrected at the point in time of the evaluation. In such cases, the individual or individuals assigned ultimate responsibility and accountability for the system of quality management may conclude that the system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved.
- .A212** An identified deficiency may have a pervasive effect on the design, implementation, and operation of the system of quality management when, for example, the deficiency
- affects several components or aspects of the system of quality management.

- is confined to a specific component or aspect of the system of quality management but is fundamental to the system of quality management.
- affects several business units or geographical locations of the firm.
- is confined to a business unit or geographical location, but the business unit or location affected is fundamental to the firm overall.
- affects a substantial portion of engagements that are of a certain type or nature.

.A213 An example of an identified deficiency that may be considered severe but not pervasive is as follows:

The firm identifies a deficiency in one of its smaller regional offices. The identified deficiency relates to noncompliance with many firm policies or procedures. The firm determines that the culture in the regional office, particularly the actions and behavior of leadership in the regional office, which were overly focused on financial priorities, has contributed to the root cause of the identified deficiency. The firm determines that the effect of the identified deficiency is as follows:

- Severe, because it relates to the culture of the regional office and overall compliance with firm policies or procedures
- Not pervasive, because it is limited to the smaller regional office

.A214 The individual or individuals assigned ultimate responsibility and accountability for the system of quality management may conclude that the system of quality management does not provide the firm with reasonable assurance that the objectives of the system of quality management are being achieved in circumstances in which identified deficiencies are severe and pervasive, actions taken to remediate the identified deficiencies are not appropriate, and the effect of the identified deficiencies have not been appropriately corrected.

.A215 An example of an identified deficiency that may be considered severe and pervasive is as follows:

The firm identifies a deficiency in a regional office, which is the firm's largest office and provides financial, operational, and technical support for the entire region. The identified deficiency relates to noncompliance with many firm policies or procedures. The firm determines that the culture in the regional office, particularly the actions and behavior of leadership in the regional office, which were overly focused on financial priorities, has contributed to the root cause of the identified deficiency. The firm determines that the effect of the identified deficiency is as follows:

- Severe, because it relates to the culture of the regional office and overall compliance with firm policies or procedures
- Pervasive, because the regional office is the largest office and provides support to many other offices, and the noncompliance with firm policies or procedures may have had a broader effect on the other offices

.A216 It may take time for the firm to remediate identified deficiencies that are severe and pervasive. As the firm continues to take action to remediate the identified deficiencies, the pervasiveness of the identified deficiencies may be diminished, and it may be determined that the identified deficiencies are still severe but no longer severe and pervasive. In such cases, the individual or individuals assigned ultimate responsibility and accountability for the system of quality management may conclude that, except for matters related to identified deficiencies that have a severe but not pervasive effect on the design, implementation, and operation of the system of quality management, the system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved.

.A217 This section does not require the firm to obtain an independent evaluation (for example, a peer review report or report on service organization controls) on its system of quality management annually or preclude the firm from doing so.

Taking Prompt and Appropriate Action and Further Communication (Ref: [par. .56](#))

.A218 In circumstances in which the individual or individuals assigned ultimate responsibility and accountability for the system of quality management reach the conclusion described in [paragraph .55b](#) or [.55c](#), the prompt and appropriate action taken by the firm may include the following:

- Taking measures to support performing engagements through assigning more resources or developing more guidance and to confirm that reports issued by the firm are appropriate in the circumstances, until such time as the identified deficiencies are remediated, and communicating such measures to engagement teams
- Obtaining legal advice

.A219 In some circumstances, the firm may have an independent governing body that has nonexecutive oversight of the firm. In such circumstances, communications may include informing the independent governing body.

- .A220** Examples of circumstances in which it may be appropriate for the firm to communicate to external parties about the evaluation of the system of quality management include the following:
- When the firm belongs to a network
 - When other network firms use the work performed by the firm, for example, in the case of a group audit
 - When a report issued by the firm is determined by the firm to be inappropriate as a result of the failure of the system of quality management, and management or those charged with governance of the entity need to be informed
 - When law or regulation requires the firm to communicate to an oversight authority or a regulatory body

Performance Evaluations (Ref: [par. .57](#))

- .A221** Periodic performance evaluations promote accountability. In considering the performance of an individual, the firm may take the following into account:
- The results of the firm's monitoring activities for aspects of the system of quality management that relate to the responsibility of the individual. In some circumstances, the firm may set targets for the individual and measure the results of the firm's monitoring activities against those targets.
 - The actions taken by the individual in response to identified deficiencies that relate to the responsibility of that individual, including the timeliness and effectiveness of such actions.
- .A222** An example of scalability to demonstrate how firms of different complexity may undertake the performance evaluations is as follows:
- In a less complex firm, the firm may engage a service provider to perform the evaluation, or the results of the firm's monitoring activities may provide an indication of the performance of the individual.
 - In a more complex firm, the performance evaluations may be undertaken by an independent nonexecutive member of the firm's governing body or a special committee overseen by the firm's governing body.
- .A223** A positive performance evaluation may be rewarded through compensation, promotion, and other incentives that focus on the individual's commitment to quality and reinforce accountability. On the other hand, the firm may take corrective actions to address a negative performance evaluation that may affect the firm's achievement of its quality objectives.

Documentation (Ref: [par. .58–.60](#))

- .A224** Documentation provides evidence that the firm complies with this section, as well as law, regulation, or relevant ethical requirements. It may also be useful for training personnel and engagement teams, ensuring the retention of organizational knowledge, and providing a history of the basis for decisions made by the firm about its system of quality management. It is neither necessary nor practicable for the firm to document every matter considered, or judgment made, about its system of quality management. Furthermore, compliance with this section may be evidenced by the firm through its information and communication component, documents or other written materials, or IT applications that are integral to the components of the system of quality management.
- .A225** Documentation may be formal (for example, written manuals, checklists, and forms), informal (for example, email communication or postings on websites), or held in IT applications or other digital forms (for example, in databases). Factors that may affect the firm's judgments about the form, content, and extent of documentation, including how often documentation is updated, may include the following:
- The complexity of the firm and the number of offices
 - The nature and complexity of the firm's practice and organization
 - The nature of engagements the firm performs and the nature of the entities for whom engagements are performed
 - The nature and complexity of the matter being documented, such as whether it relates to an aspect of the system of quality management that has changed or an area of greater quality risk, and the complexity of the judgments relating to the matter
 - The frequency and extent of changes in the system of quality management

In a less complex firm, it may not be necessary to have documentation supporting matters communicated because informal communication methods may be effective. Nevertheless, a less complex firm may determine it appropriate to document such communications in order to provide evidence that they occurred.

.A226 In some instances, an external oversight authority may establish documentation requirements, either formally or informally, for example, as a result of the outcome of external inspection findings. Relevant ethical requirements may also include specific requirements addressing documentation; for example, the AICPA code requires documentation of particular matters, including certain situations related to conflicts of interest, noncompliance with laws and regulations, and independence.

.A227 The firm is not required to document the consideration of every condition, event, circumstance, action, or inaction for each quality objective or each risk that may give rise to a quality risk. However, in documenting the quality risks and how the firm's responses address the

quality risks, the firm may document the reasons for the assessment given to the quality risks (that is, the considered occurrence and effect on the achievement of one or more quality objectives) to support the consistent implementation and operation of the responses.

.A228 The documentation may be provided by the network, other network firms, or other structures or organizations within the network.

QM Section 20

Engagement Quality Reviews

Source: SQMS No. 2; SQMS No. 3.

Effective for audits or reviews of financial statements for periods beginning on or after December 15, 2025, and other engagements in the firm's accounting and auditing practice beginning on or after December 15, 2025.

Introduction

Scope of This Section

- .01 This section addresses the following:
- The appointment and eligibility of the engagement quality reviewer
 - The engagement quality reviewer's responsibilities relating to the performance and documentation of an engagement quality review
- .02 This section applies to all engagements for which an engagement quality review is required to be performed in accordance with [Statement on Quality Management Standards \(SQMS\) No. 1](#), *A Firm's System of Quality Management* (QM sec. 10), including when the firm has determined that an engagement quality review is an appropriate response to assessed quality risks.¹ This section is to be read in conjunction with the AICPA Code of Professional Conduct (AICPA code) and other relevant ethical requirements.
- .03 An engagement quality review performed in accordance with this section is a specified response that is designed and implemented by the firm in accordance with [SQMS No. 1](#).² The performance of an engagement quality review is undertaken at the engagement level by the engagement quality reviewer on behalf of the firm.

Scalability

- .04 The nature, timing, and extent of the engagement quality reviewer's procedures required by this section vary depending on the nature and circumstances of the engagement or the entity. For example, for engagements involving fewer significant judgments made by the

engagement team, the engagement quality reviewer's procedures would likely be less extensive.

The Firm's System of Quality Management and Role of Engagement Quality Reviews

- .05 [SQMS No. 1](#) establishes the firm's responsibilities for its system of quality management and requires the firm to design and implement responses to address the quality risks in a manner that is based on, and responsive to, the reasons for the assessments given to the quality risks.³ The specified responses in [SQMS No. 1](#)⁴ include establishing policies or procedures addressing engagement quality reviews in accordance with this section.
- .06 The firm is responsible for designing, implementing, and operating the system of quality management. Under [SQMS No. 1](#), the objective of the firm is to design, implement, and operate a system of quality management for engagements performed by the firm in its accounting and auditing practice⁵ that provides the firm with reasonable assurance that
- the firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
 - engagement reports issued by the firm or engagement partners are appropriate in the circumstances.⁶
- .07 As explained in [SQMS No. 1](#), the public interest is served by the consistent performance of quality engagements. Quality engagements are achieved through planning and performing engagements and reporting on them in accordance with professional standards and applicable legal and regulatory requirements. Achieving the objectives of those standards and complying with the requirements of applicable law or regulation involves exercising professional judgment and, when applicable to the type of engagement, maintaining professional skepticism.

¹ [Paragraph 35f](#) of Statement on Quality Management Standards (SQMS) (previously Statement on Quality Control Standards) No. 1, *A Firm's System of Quality Management* (QM sec. 10).

² See [footnote 1](#).

³ [Paragraph 25](#) of SQMS No. 1.

⁴ [Paragraph 35f](#) of SQMS No. 1.

⁵ The term auditing and accounting practice is defined in [paragraph 17](#) of SQMS No. 1.

⁶ [Paragraph 15](#) of SQMS No. 1.

- .08** An engagement quality review is an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon. The engagement quality reviewer's evaluation of significant judgments is performed in the context of professional standards and applicable legal and regulatory requirements. However, an engagement quality review is not intended to be an evaluation of whether the entire engagement complies with professional standards and applicable legal and regulatory requirements or with the firm's policies or procedures.
- .09** The engagement quality reviewer is not a member of the engagement team. The performance of an engagement quality review does not change the responsibilities of the engagement partner for managing and achieving quality on the engagement or for the direction and supervision of the members of the engagement team and the review of their work. The engagement quality reviewer is not required to obtain evidence to support the opinion or conclusion on the engagement, but the engagement team may obtain further evidence in responding to matters raised during the engagement quality review.

Authority of This Section

- .10** This section contains the objective for the firm in following this section and requirements designed to enable the firm and the engagement quality reviewer to meet that stated objective. In addition, it contains related guidance in the form of application and other explanatory material and introductory material that provides context relevant to a proper understanding of this section and definitions. [SQMS No. 1](#)⁷ explains the terms *objective*, *requirements*, *application material and other explanatory material*, *introductory material*, and *definitions*.

Effective Date

- .11** This section is effective for
- audits or reviews of financial statements for periods beginning on or after December 15, 2025, and
 - other engagements in the firm's accounting and auditing practice beginning on or after December 15, 2025.

Objective

- .12** The objective of the firm, through appointing an eligible engagement quality reviewer, is to perform an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon.

Definitions

- .13** For purposes of the SQMSs, the following terms have the meanings attributed as follows:

Engagement quality review. An objective evaluation of the significant judgments made by the engagement team, and the conclusions reached thereon, performed by the engagement quality reviewer and completed before the engagement report is released.

Engagement quality reviewer. A partner, other individual in the firm, or an external individual appointed by the firm to perform the engagement quality review.

Relevant ethical requirements. Principles of professional ethics and ethical requirements to which the engagement team and engagement quality reviewer, when undertaking an engagement quality review, 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. (Ref: [par. .A11–.A14](#))

Requirements

Applying, and Complying With, Relevant Requirements

- .14** The firm and the engagement quality reviewer should have an understanding of this section, including the application and other explanatory material, to understand the objective of this section and to properly apply the requirements relevant to them.
- .15** The firm or the engagement quality reviewer, as applicable, should comply with each requirement of this section, unless the requirement is not relevant in the circumstances of the engagement.
- .16** The proper application of the requirements is expected to provide a sufficient basis for the achievement of the objective of this standard. However, if the firm or the engagement quality reviewer determines that the application of the relevant requirements does not provide a sufficient basis for the achievement of the objective of this standard, the firm or the engagement quality reviewer, as applicable, should take further actions to achieve the objective.

⁷ [Paragraphs 12](#) and [A6–A9](#) of SQMS No. 1.

Appointment and Eligibility of Engagement Quality Reviewers

- .17** The firm should establish policies or procedures that require the assignment of responsibility for the appointment of engagement quality reviewers to an individual or individuals with the competence, capabilities, and appropriate authority within the firm to fulfill the responsibility. Those policies or procedures should require such individual or individuals to appoint the engagement quality reviewer. (Ref: [par. .A1–.A3](#))
- .18** The firm should establish policies or procedures that set forth the criteria for eligibility to be appointed as an engagement quality reviewer. Those policies or procedures should require that the engagement quality reviewer (Ref: [par. .A4](#))
- a. not be a member of the engagement team;
 - b. have the competence and capabilities, including sufficient time, and the appropriate authority to perform the engagement quality review; (Ref: [par. .A5–.A10](#))
 - c. comply with relevant ethical requirements, including those addressing threats to the objectivity and independence of the engagement quality reviewer; and (Ref: [par. .A11–.A13](#))
 - d. comply with provisions of law and regulation, if any, that are relevant to the eligibility of the engagement quality reviewer. (Ref: [par. .A14](#))
- .19** The firm's policies or procedures established in accordance with paragraph .18c should also address threats to objectivity created by an individual being appointed as the engagement quality reviewer after previously serving as the engagement partner. (Ref: [par. .A15–.A17](#))
- .20** The firm should establish policies or procedures that set forth the criteria for eligibility of individuals who assist the engagement quality reviewer. Those policies or procedures should require that such individuals
- a. not be members of the engagement team;
 - b. have the competence and capabilities, including sufficient time, to perform the duties assigned to them; and (Ref: [par. .A18](#))
 - c. comply with relevant ethical requirements, including addressing threats to their objectivity and independence and, if applicable, the provisions of law and regulation. (Ref: [par. .A19–.A20](#))
- .21** The firm should establish policies or procedures that
- a. require the engagement quality reviewer to take overall responsibility for the performance of the engagement quality review and

- b. address the engagement quality reviewer's responsibility for determining the nature, timing, and extent of the direction and supervision of individuals assisting in the engagement quality review and the review of their work. (Ref: [par. .A21](#))

Impairment of the Engagement Quality Reviewer's Eligibility to Perform the Engagement Quality Review

- .22** The firm should establish policies or procedures that address circumstances in which the engagement quality reviewer's eligibility to perform the engagement quality review is impaired and the appropriate actions to be taken by the firm, including the process for identifying and appointing a replacement in such circumstances. (Ref: [par. .A22](#))
- .23** When the engagement quality reviewer becomes aware of circumstances that impair the engagement quality reviewer's eligibility, the engagement quality reviewer should notify the appropriate individual or individuals in the firm and, (Ref: [par. .A23](#))
- a. if the engagement quality review has not commenced, decline the appointment to perform the engagement quality review, or
 - b. if the engagement quality review has commenced, discontinue the performance of the engagement quality review.

Performance of the Engagement Quality Review

- .24** The firm should establish policies or procedures regarding the performance of the engagement quality review that address the following:
- a. The engagement quality reviewer's responsibilities to perform procedures in accordance with [paragraphs .25–.26](#) at appropriate points in time during the engagement to provide an appropriate basis for an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon
 - b. The responsibilities of the engagement partner in relation to the engagement quality review, including that the engagement partner is precluded from releasing the engagement report until notification has been received from the engagement quality reviewer, in accordance with [paragraph .27](#), that the engagement quality review is complete (Ref: [par. .A24–.A26](#))
 - c. Circumstances in which the nature and extent of engagement team discussions with the engagement quality reviewer about a significant judgment give rise to a threat to the objectivity of the engagement quality reviewer and appropriate actions to take in these circumstances (Ref: [par. .A27](#))

- .25** In performing the engagement quality review, the engagement quality reviewer should do the following: (Ref: [par. .A28–.A33](#))
- a. Read, and obtain an understanding about, information communicated by (Ref: [par. .A34](#))
 - i. the engagement team regarding the nature and circumstances of the engagement and the entity and
 - ii. the firm related to the firm’s monitoring and remediation process, in particular, identified deficiencies that may relate to, or affect, the areas involving significant judgments made by the engagement team.
 - b. Discuss with the engagement partner and, if applicable, other members of the engagement team, significant matters and significant judgments made in planning, performing, and reporting on the engagement. (Ref: [par. .A35–.A38](#))
 - c. Based on the information obtained in (a) and (b), review selected engagement documentation relating to significant judgments made by the engagement team and evaluate the following: (Ref: [par. .A39–.A43](#))
 - i. The basis for making those significant judgments, including, when applicable to the type of engagement, the maintenance of professional skepticism by the engagement team
 - ii. Whether the engagement documentation supports the conclusions reached
 - iii. Whether the conclusions reached are appropriate
 - d. Evaluate the basis for the engagement partner’s determination that relevant ethical requirements relating to independence, when applicable, have been fulfilled. (Ref: [par. .A44](#))
 - e. Evaluate whether appropriate consultation has taken place on difficult or contentious matters or matters involving differences of opinion and the conclusions arising from those consultations. (Ref: [par. .A45](#))
 - f. For engagements conducted in accordance with generally accepted auditing standards, evaluate the basis for the engagement partner’s determination that the engagement partner’s involvement has been sufficient and appropriate throughout the engagement such that the engagement partner has the basis for determining that the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the engagement. (Ref: [par. .A46–.A47](#))

- g. Review,
 - i. for audits of financial statements, the financial statements and the auditor’s report thereon, including, if applicable, the description of the key audit matters; (Ref: [par. .A48](#))
 - ii. for reviews of financial statements or financial information, the financial statements or financial information and the review report thereon; or (Ref: [par. .A48](#))
 - iii. for other engagements, the engagement report, and when applicable, the subject matter information. (Ref: [par. .A49](#))
- .26** The engagement quality reviewer should notify the engagement partner if the engagement quality reviewer has concerns that the significant judgments made by the engagement team, including the appropriate maintenance of professional skepticism by the engagement team when applicable to the type of engagement, or the conclusions reached thereon, are not appropriate. If such concerns are not resolved to the engagement quality reviewer’s satisfaction, the engagement quality reviewer should notify the appropriate individual or individuals in the firm that the engagement quality review cannot be completed. (Ref: [par. .A50](#))

Completion of the Engagement Quality Review

- .27** The engagement quality reviewer should determine whether the requirements in this section with respect to the performance of the engagement quality review have been fulfilled and whether the engagement quality review is complete. If so, the engagement quality reviewer should notify the engagement partner that the engagement quality review is complete.

Documentation

- .28** The firm should establish policies or procedures that require the engagement quality reviewer to take responsibility for documentation of the engagement quality review. (Ref: [par. .A51](#))
- .29** The firm should establish policies or procedures that require documentation of the engagement quality review in accordance with paragraph .30 and require that such documentation be included with the engagement documentation.

- .30** The engagement quality reviewer should determine that the documentation of the engagement quality review is sufficient to enable an experienced practitioner, having no previous connection with the engagement, to understand the nature, timing, and extent of the procedures performed by the engagement quality reviewer and, when applicable, individuals who assisted the reviewer and to understand the conclusions reached in performing the review. In doing so, the engagement quality reviewer should determine that the documentation of the engagement quality review includes the following: (Ref: [par. .A52–.A54](#))
- a. The names of the engagement quality reviewer and any individuals who assisted with the engagement quality review
 - b. An identification of the engagement documentation reviewed
 - c. The basis for the engagement quality reviewer's determination in accordance with [paragraph .27](#)
 - d. The notifications required in accordance with [paragraphs .26–.27](#)
 - e. The date of completion of the engagement quality review

Application and Other Explanatory Material

Appointment and Eligibility of Engagement Quality Reviewers

Assignment of Responsibility for the Appointment of Engagement Quality Reviewers (Ref: [par. .17](#))

- .A1** Competence and capabilities that are relevant to an individual's ability to fulfill responsibility for the appointment of the engagement quality reviewer may include appropriate knowledge about the following:
- The responsibilities of an engagement quality reviewer
 - The criteria in paragraphs .18–.19 regarding the eligibility of engagement quality reviewers
 - The nature and circumstances of the engagement or the entity subject to an engagement quality review, including the composition of the engagement team
- .A2** The firm's policies or procedures may specify that the individual responsible for the appointment of engagement quality reviewers not be a member of the engagement team for which an engagement quality review is to be performed. However, in certain circumstances (for example, in the case of a smaller firm or a sole practitioner), it may not be practicable for an individual other than a member of the engagement team to appoint the engagement quality reviewer.

- .A3** The firm may assign more than one individual to be responsible for appointing engagement quality reviewers. For example, the firm's policies or procedures may specify a different process for appointing engagement quality reviewers for audits of financial statements than for attestation examination engagements or other engagements, with different individuals responsible for each process.

Eligibility of the Engagement Quality Reviewer (Ref: [par. .18](#))

- .A4** In some circumstances, for example, in the case of a smaller firm or a sole practitioner, there may not be a partner or other individual in the firm who is eligible to perform the engagement quality review. In these circumstances, the firm may contract with, or obtain the services of, individuals external to the firm to perform the engagement quality review. An individual external to the firm may be a partner or an employee of a network firm, a structure or organization within the firm's network, or a service provider. When using such an individual, the provisions in [SQMS No. 1](#) addressing network requirements or network services or service providers apply.

Eligibility Criteria for the Engagement Quality Reviewer

Competence and Capabilities, Including Sufficient Time (Ref: [par. .18a](#))

- .A5** [SQMS No. 1](#) describes characteristics related to competence, including the integration and application of technical competence, professional skills, and professional ethics, values, and attitudes.⁸ Characteristics that the firm may consider in determining that an individual has the necessary competence to perform an engagement quality review include, for example, the following:
- An understanding of professional standards and applicable legal and regulatory requirements and the firm's policies or procedures relevant to the engagement
 - Knowledge of the entity's industry
 - An understanding of, and experience relevant to, engagements of a similar nature and complexity
 - An understanding of the responsibilities of the engagement quality reviewer in performing and documenting the engagement quality review, which may be attained or enhanced by receiving relevant training from the firm

⁸ [Paragraph A92](#) of SQMS No. 1.

.A6 The conditions, events, circumstances, actions, or inactions considered by the firm in determining that an engagement quality review is an appropriate response to address one or more quality risks⁹ may be important to the firm's determination of the competence and capabilities required to perform the engagement quality review for that engagement. Other considerations that the firm may take into account in determining whether the engagement quality reviewer has the competence and capabilities, including sufficient time, needed to evaluate the significant judgments made by the engagement team and the conclusions reached thereon include, for example, the following:

- The nature of the entity
- The specialization and complexity of the industry or regulatory environment in which the entity operates
- The extent to which the engagement relates to matters requiring specialized expertise (for example, with respect to IT or specialized areas of accounting or auditing), or scientific and engineering expertise, which may be needed for certain assurance engagements (Also see [paragraph .A19](#).)

.A7 In evaluating the competence and capabilities of an individual who may be appointed as an engagement quality reviewer, the findings arising from the firm's monitoring activities (for example, findings from the inspection of engagements for which the individual was an engagement team member or engagement quality reviewer) or the results of external inspections may also be relevant considerations.

.A8 A lack of appropriate competence or capabilities affects the ability of the engagement quality reviewer to exercise appropriate professional judgment in performing the review. For example, an engagement quality reviewer who lacks relevant industry experience may not possess the ability or confidence necessary to evaluate and, when appropriate, challenge significant judgments made and the maintenance of professional skepticism by the engagement team on a complex, industry-specific accounting or auditing matter.

Appropriate Authority (Ref: [par. .18a](#))

.A9 Actions at the firm level help to establish the authority of the engagement quality reviewer. For example, when the firm has created a culture of respect for the role of the engagement quality reviewer, the engagement quality reviewer is less likely to experience pressure from the engagement partner or other personnel to inappropriately influence the outcome of the engagement quality review. In some cases, the engagement quality reviewer's authority may be enhanced by the firm's policies or procedures to address differences of opinion, which

may include actions the engagement quality reviewer may take when a disagreement occurs between the engagement quality reviewer and the engagement team.

.A10 The authority of the engagement quality reviewer may be diminished when

- the culture within the firm promotes respect for authority only for personnel at a higher level of hierarchy within the firm.
- the engagement quality reviewer has a reporting line to the engagement partner, for example, when the engagement partner holds a leadership position in the firm or is responsible for determining the compensation of the engagement quality reviewer.

Relevant Ethical Requirements (Ref: [par. .13](#) and [.18c](#))

.A11 The relevant ethical requirements that are applicable when undertaking an engagement quality review may vary, depending on the nature and circumstances of the engagement or the entity. Various provisions of relevant ethical requirements may apply to an individual, such as an engagement quality reviewer, and not the firm itself. For example, if a firm uses an external provider to perform an engagement quality review, that individual may be subject to independence requirements; however, the independence requirements imposed on that individual as a result of performing the engagement quality review may not extend to the entire firm for which that individual works.

Threats to the Objectivity of the Engagement Quality Reviewer

.A12 Threats to the engagement quality reviewer's objectivity may be created by a broad range of facts and circumstances. Examples follow:

- A self-review threat may be created when the engagement quality reviewer previously was involved with significant judgments made by the engagement team, in particular, as the engagement partner or another engagement team member.
- A familiarity or self-interest threat may arise when the engagement quality reviewer is a close or immediate family member of the engagement partner or another member of the engagement team, or through close personal relationships with members of the engagement team.
- An intimidation threat may be created when actual or perceived pressure is exerted on the engagement quality reviewer (for example, when the engagement partner is an aggressive or dominant individual, or the engagement quality reviewer has a reporting line to the engagement partner).

⁹ See footnote 8.

- .A13** Relevant ethical requirements may include requirements and guidance to identify, evaluate, and address threats to objectivity. They may also include provisions that address threats to independence created by long association with an audit or assurance client.

Law or Regulation Relevant to the Eligibility of the Engagement Quality Reviewer (Ref: [par. .18d](#))

- .A14** Law or regulation may prescribe additional requirements regarding the eligibility of the engagement quality reviewer. For example, the audit requirements of the FDIC regulations¹⁰ for certain financial institutions require the auditor (which includes the engagement quality reviewer) to be in compliance with the AICPA's Code of Professional Conduct and also meet the independence requirements and interpretations of the SEC and its staff.

Considerations Related to Assigning the Previous Engagement Partner as Engagement Quality Reviewer (Ref: [par. .19](#))

- .A15** In recurring engagements, the matters on which significant judgments are made often do not vary. Therefore, significant judgments made in prior periods may continue to affect judgments of the engagement team in subsequent periods. Therefore, the ability of an engagement quality reviewer to perform an objective evaluation of significant judgments is affected when the individual was previously involved with those judgments as the engagement partner. In such circumstances, it is important that appropriate safeguards are put in place to reduce threats to objectivity, in particular, the self-review threat, to an acceptable level. The following factors may be taken into consideration when designing policies or procedures to maintain the objectivity of an engagement quality reviewer who served as the engagement partner on the previous year's engagement:

- The extent of changes in the matters on which significant judgments are made and the facts and circumstances around those significant judgments compared to the period or periods in which the individual was the engagement partner. For example, if a business combination with a material effect on the financial statements has occurred, the significant judgments made in the current period may vary from those of the prior period to such an extent that an objective evaluation of those judgments could be made by the individual who served as the engagement partner in the previous period.
- The incentives and disincentives within the firm that may affect the objectivity of the engagement quality reviewer.

- .A16** A firm may establish policies or procedures that limit the eligibility to be appointed as engagement quality reviewers of individuals who previously served as the engagement partner, for example, by establishing a specified cooling-off period during which the engagement partner is precluded from being appointed as the engagement quality reviewer. Determining a suitable cooling-off period depends on the facts and circumstances of the engagement.

- .A17** The firm's policies or procedures may also address whether a cooling-off period is appropriate for an individual other than the engagement partner before becoming eligible to be appointed as the engagement quality reviewer on that engagement. In this regard, the firm may consider the nature of that individual's role and previous involvement with the significant judgments made on the engagement. For example, the firm may determine that an engagement partner responsible for the performance of audit procedures on the financial information of a component in a group audit engagement may not be eligible to be appointed as the group engagement quality reviewer because of that audit partner's involvement in the significant judgments affecting the group audit engagement.

Circumstances in Which the Engagement Quality Reviewer Uses Assistants (Ref: [par. .20–.21](#))

- .A18** In certain circumstances, it may be appropriate for the engagement quality reviewer to be assisted by an individual or team of individuals. For example, assistance from individuals with highly specialized knowledge, skills, or expertise may be useful for understanding certain transactions undertaken by the entity to help the engagement quality reviewer evaluate the significant judgments made by the engagement team related to those transactions.
- .A19** The guidance in paragraph .A14 may be helpful to the firm when establishing policies or procedures that address threats to objectivity of individuals who assist the engagement quality reviewer.
- .A20** When the engagement quality reviewer is assisted by an individual external to the firm, the assistant's responsibilities, including those related to compliance with relevant ethical requirements, may be set out in the contract or other agreement between the firm and the assistant.

¹⁰ See Title 12, Chapter III, Subchapter B, Part 363.3(f) of the U.S. *Code of Federal Regulations*.

- .A21** The firm's policies or procedures may include responsibilities of the engagement quality reviewer to
- consider whether assistants understand their instructions and whether the work is being carried out in accordance with the planned approach to the engagement quality review and
 - address matters raised by assistants, considering their significance and modifying the planned approach appropriately.

Impairment of the Engagement Quality Reviewer's Eligibility to Perform the Engagement Quality Review (Ref: [par. .22–.23](#))

- .A22** Factors that may be relevant to the firm in considering whether the eligibility of the engagement quality reviewer to perform the engagement quality review is impaired include the following:
- Whether changes in the circumstances of the engagement result in the engagement quality reviewer no longer having the appropriate competence and capabilities to perform the review
 - Whether changes in the other responsibilities of the engagement quality reviewer indicate that the individual no longer has sufficient time to perform the review
 - Notification from the engagement quality reviewer in accordance with [paragraph .23](#)
- .A23** In circumstances in which the engagement quality reviewer's eligibility to perform the engagement quality review becomes impaired, the firm's policies or procedures may set out a process by which alternative eligible individuals are identified. The firm's policies or procedures may also address the responsibility of the individual appointed to replace the engagement quality reviewer to perform procedures sufficient to fulfill the requirements of this section with respect to the performance of the engagement quality review. Such policies or procedures may further address the need for consultation in such circumstances and may include, for example, the following:
- Evaluation of whether procedures performed by the previous engagement quality reviewer could be relied on by the newly assigned engagement quality reviewer or whether all work would need to be reperformed
 - Consideration of the effect of an engagement quality review assistant on the transition, when such assistant has been involved in the engagement quality review prior to transition

- Procedures undertaken by the engagement team to inform the newly assigned engagement quality reviewer about planning meeting discussions that have already occurred and other matters in which the previous engagement quality reviewer had been involved
- Documentation of the circumstances necessitating the change

Performance of the Engagement Quality Review (Ref: [par. .24–.27](#))

Engagement Partner Responsibilities in Relation to the Engagement Quality Review (Ref: [par. .24b](#))

- .A24** Statement on Auditing Standards (SAS) No. 146, *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards (AU-C sec. 220)*,¹¹ establishes the requirements for the engagement partner in audit engagements for which an engagement quality review is required, including the following:
- Determining that an engagement quality reviewer has been appointed
 - Cooperating with the engagement quality reviewer and informing other members of the engagement team of their responsibility to do so
 - Discussing significant matters and significant judgments arising during the audit engagement, including those identified during the engagement quality review, with the engagement quality reviewer
 - Not releasing the auditor's report until the completion of the engagement quality review
- .A25** Professional standards include requirements that address the engagement report date. When the engagement quality review is completed after the report date, there may be instances in which the date of the report is required to be changed because additional procedures are needed or additional evidence is required. In such instances, the report date is changed to the date when the additional procedures have been satisfactorily completed or the additional evidence has been obtained, in accordance with the professional standards applicable to the engagement. The need to change a report date may be indicative of a deficiency or deficiencies in the firm's system of quality management.
- .A26** AT-C section 105, *Concepts Common to All Attestation Engagements*,¹² also establishes requirements for the engagement partner in relation to the engagement quality review.

¹¹ Paragraph 36 of Statement on Auditing Standards (SAS) No. 146, *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards (AU-C sec. 220)*.

¹² Paragraph .45 of AT-C section 105, *Concepts Common to All Engagements*.

Discussions Between the Engagement Quality Reviewer and the Engagement Team (Ref: [par. .24c](#))

.A27 Frequent communication between the engagement team and engagement quality reviewer throughout the engagement may assist in facilitating an effective and timely engagement quality review. However, a threat to the objectivity of the engagement quality reviewer may be created depending on the timing and extent of the discussions with the engagement team about a significant judgment. The firm's policies or procedures may set out the actions to be taken by the engagement quality reviewer or the engagement team to avoid situations in which the engagement quality reviewer is, or may be perceived to be, making decisions on behalf of the engagement team. For example, in these circumstances, the firm may require consultation about such significant judgments with other relevant personnel in accordance with the firm's consultation policies or procedures.

Procedures Performed by the Engagement Quality Reviewer (Ref: [par. .25-.27](#))

.A28 The firm's policies or procedures may specify the nature, timing, and extent of the procedures performed by the engagement quality reviewer and also may emphasize the importance of the engagement quality reviewer exercising professional judgment in performing the review.

.A29 The timing of the procedures performed by the engagement quality reviewer may depend on the nature and circumstances of the engagement or the entity, including the nature of the matters subject to the review. Timely review of the engagement documentation by the engagement quality reviewer throughout all stages of the engagement (for example, planning, performing, and reporting) allows matters to be promptly resolved to the engagement quality reviewer's satisfaction before the release of the engagement report. For example, the engagement quality reviewer may perform procedures in relation to the overall strategy and plan for the engagement at the completion of the planning phase. Timely performance of the engagement quality review may also reinforce the exercise of professional judgment and, when applicable to the type of engagement, maintenance of professional skepticism by the engagement team in planning and performing the engagement.

.A30 The nature and extent of the engagement quality reviewer's procedures for a specific engagement may depend on the following, among other factors:

- The reasons for the assessments given to quality risks,¹³ for example, engagements performed

for entities in emerging industries or with complex transactions.

- Identified deficiencies, and the remedial actions to address the identified deficiencies, related to the firm's monitoring and remediation process and any related guidance issued by the firm, which may indicate areas where more extensive procedures need to be performed by the engagement quality reviewer.
- The complexity of the engagement.
- The nature and size of the entity, including whether the entity is a listed entity.
- Findings relevant to the engagement, such as the results of inspections undertaken by an external oversight authority in a prior period, or other concerns raised about the quality of the work of the engagement team.
- Information obtained from the firm's acceptance and continuance of client relationships and specific engagements.
- For assurance engagements, the engagement team's identification and assessment of, and responses to, risks of material misstatement in the engagement.
- Whether members of the engagement team have cooperated with the engagement quality reviewer. The firm's policies or procedures may address the actions the engagement quality reviewer takes in circumstances in which the engagement team has not cooperated with the engagement quality reviewer, for example, informing an appropriate individual in the firm so appropriate action can be taken to resolve the issue.

.A31 The nature, timing, and extent of the engagement quality reviewer's procedures may need to change based on circumstances encountered in performing the engagement quality review.

Group Audit Considerations

.A32 The performance of an engagement quality review for an audit of group financial statements may involve additional considerations for the individual appointed as the engagement quality reviewer for the group audit, depending on the size and complexity of the group. [Paragraph .21a](#) requires the firm's policies or procedures to require the engagement quality reviewer to take overall responsibility for the performance of the engagement quality review. In doing so, for larger and more complex group audits, the group engagement quality reviewer may need to discuss significant matters and significant judgments with key members of the engagement team other than the group auditor (for example, a component auditor). In these circumstances,

¹³ [Paragraph A49](#) of SQMS No. 1.

the engagement quality reviewer may be assisted by individuals in accordance with [paragraph .20](#). The guidance in [paragraph .A22](#) may be helpful when the engagement quality reviewer for the group audit is using assistants. [As amended, effective for audits or reviews of financial statements for periods beginning on or after December 15, 2025, and other engagements in the firm's accounting and auditing practice beginning on or after December 15, 2025, by SQMS No. 3.]

- .A33** In some cases, an engagement quality reviewer may be appointed for an audit of an entity or business unit that is part of a group, for example, when such an audit is required by law, regulation, or for other reasons. In these circumstances, communication between the engagement quality reviewer for the group audit and the engagement quality reviewer for the audit of that entity or business unit may help the group engagement quality reviewer in fulfilling the responsibilities in accordance with [paragraph .21a](#). For example, this may be the case when the entity or business unit has been identified as a component for purposes of the group audit and significant judgments related to the group audit have been made at the component level.

Information Communicated by the Engagement Team and the Firm (Ref: [par. .25a](#))

- .A34** Obtaining an understanding of information communicated by the engagement team and the firm in accordance with [paragraph .25a](#) may assist the engagement quality reviewer in understanding the significant judgments that may be expected for the engagement. Such an understanding may also provide the engagement quality reviewer with a basis for discussions with the engagement team about the significant matters and significant judgments made in planning, performing, and reporting on the engagement. For example, a deficiency identified by the firm may relate to significant judgments made by other engagement teams for certain accounting estimates for a particular industry. When this is the case, such information may be relevant to the significant judgments made on the engagement with respect to those accounting estimates and, therefore, may provide the engagement quality reviewer with a basis for discussions with the engagement team in accordance with [paragraph .25b](#).

Significant Matters and Significant Judgments (Ref: [par. .25b–c](#))

- .A35** For audits of financial statements, SAS No. 146¹⁴ requires the engagement partner to review audit documentation relating to significant matters¹⁵ and

significant judgments, including those relating to difficult or contentious matters identified during the engagement, and the conclusions reached.

- .A36** For audits of financial statements, SAS No. 146¹⁶ provides examples of significant judgments that may be identified by the engagement partner related to the overall audit strategy and audit plan for undertaking the engagement, the execution of the engagement, and the overall conclusions reached by the engagement team.
- .A37** For engagements other than audits of financial statements, the significant judgments made by the engagement team may depend on the nature and circumstances of the engagement or the entity. For example, in an attestation engagement performed in accordance with Statements on Standards for Attestation Engagements, the engagement team's determination of whether the criteria to be applied in the preparation of the subject matter information are suitable for the engagement may involve or require significant judgment.
- .A38** In performing the engagement quality review, the engagement quality reviewer may become aware of other areas where significant judgments would have been expected to be made by the engagement team for which further information may be needed about the engagement team's procedures performed or the basis for conclusions reached. In those circumstances, discussions with the engagement quality reviewer may result in the engagement team concluding that additional procedures need to be performed.
- .A39** The information obtained in accordance with [paragraphs .25a–b](#), and the review of selected documentation, assists the engagement quality reviewer in evaluating the engagement team's basis for making the significant judgments. Other considerations that may be relevant to the engagement quality reviewer's evaluation include, for example, the following:
- Remaining alert to changes in the nature and circumstances of the engagement or the entity that may result in changes in the significant judgments made by the engagement team
 - Applying an unbiased view in evaluating responses from the engagement team
 - Following up on inconsistencies identified in reviewing engagement documentation or inconsistent responses by the engagement team to questions relating to the significant judgments made

¹⁴ Paragraph 31 of SAS No. 146.

¹⁵ Paragraph .08c of AU-C section 230, *Audit Documentation*.

¹⁶ Paragraph A93 of SAS No. 146

- .A40** The firm's policies or procedures may specify engagement documentation to be reviewed by the engagement quality reviewer. In addition, such policies or procedures may indicate that the engagement quality reviewer exercises professional judgment in selecting additional engagement documentation to be reviewed relating to significant judgments made by the engagement team.
- .A41** Discussions about significant judgments with the engagement partner and, if applicable, other members of the engagement team, together with the engagement team's documentation, may assist the engagement quality reviewer in evaluating the maintenance of professional skepticism, when applicable to the engagement, by the engagement team in relation to those significant judgments.
- .A42** For audits of financial statements, SAS No. 146¹⁷ provides examples of the impediments to the maintenance of professional skepticism at the engagement level, unconscious auditor biases that may impede the maintenance of professional skepticism, and possible actions that the engagement team may take to mitigate impediments to the maintenance of professional skepticism at the engagement level.
- .A43** For audits of financial statements, the requirements and relevant application material in AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*;¹⁸ AU-C section 540, *Auditing Accounting Estimates and Related Disclosures*;¹⁹ and other AU-C sections also provide examples of areas in an audit where the auditor maintains professional skepticism or examples of where appropriate documentation may help provide evidence about how the auditor maintained professional skepticism. Such guidance may also assist the engagement quality reviewer in evaluating the maintenance of professional skepticism by the engagement team.

Whether Relevant Ethical Requirements Relating to Independence Have Been Fulfilled (Ref: [par. .25d](#))

- .A44** SAS No. 146²⁰ requires the engagement partner, prior to dating the auditor's report, to take responsibility for determining whether relevant ethical requirements, including those related to independence, have been fulfilled.

Whether Consultation Has Taken Place on Difficult or Contentious Matters or Matters Involving Differences of Opinion (Ref: [par. .25e](#))

- .A45** [SQMS No. 1](#)²¹ addresses consultation on difficult or contentious matters and differences of opinion within the engagement team or between the engagement team and the engagement quality reviewer or individuals performing activities within the firm's system of quality management.

Sufficient and Appropriate Involvement of the Engagement Partner on the Engagement (Ref: [par. .25f](#))

- .A46** SAS No. 146²² requires the engagement partner to determine, prior to dating the auditor's report, that the engagement partner's involvement has been sufficient and appropriate throughout the audit engagement such that the engagement partner has the basis for determining that the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the engagement. SAS No. 146 also indicates that the documentation of the involvement of the engagement partner may be accomplished in different ways. Discussions with the engagement team, and review of such engagement documentation, may assist the engagement quality reviewer's evaluation of the basis for the engagement partner's determination that the engagement partner's involvement has been sufficient and appropriate.
- .A47** SAS No. 146 is adapted, as necessary, to engagements performed in accordance with generally accepted auditing standards other than audits of financial statements. Accordingly, the requirement in [paragraph .25f](#) is applicable to those engagements.

Engagement Quality Reviewer's Review of Financial Statements and Engagement Reports (Ref: [par. .25g](#))

- .A48** For audits of financial statements, the engagement quality reviewer's review of the financial statements and auditor's report thereon is consistent with the engagement quality reviewer's understanding of those matters based on the review of selected engagement documentation and discussions with the engagement team. In reviewing the financial statements or financial information, the engagement quality reviewer may also become aware of other areas where significant judgments would have been expected to be made by the engagement team for which further information may be needed about the engagement team's procedures

¹⁷ Paragraphs A33–A35 of SAS No. 146.

¹⁸ Paragraph .A255 of AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*.

¹⁹ Paragraph .A11 of AU-C section 540, *Auditing Accounting Estimates and Related Disclosures*.

²⁰ Paragraph 21 of SAS No. 146.

²¹ [Paragraphs 32d–e](#) and [A80–A83](#) of SQMS No. 1.

²² Paragraph 40a of SAS No. 146.

or conclusions. The guidance in this paragraph also applies to reviews of financial statements or financial information and the related engagement report.

- .A49** For engagements other than audits or reviews of financial statements or financial information, the engagement quality reviewer's review of the engagement report and, when applicable, the subject matter information may include considerations similar to those described in [paragraph .A46](#) (for example, whether the presentation or description of matters relating to the significant judgments made by the engagement team are consistent with the engagement quality reviewer's understanding based on the procedures performed in connection with the engagement quality review).

Unresolved Concerns of the Engagement Quality Reviewer
(Ref: [par. .26](#))

- .A50** The firm's policies or procedures may specify the individual or individuals in the firm to be notified if the engagement quality reviewer has unresolved concerns that the significant judgments made by the engagement team, or the conclusions reached thereon, are not appropriate. Such individuals may include the individual assigned the responsibility for the appointment of engagement quality reviewers. With respect to such unresolved concerns, the firm's policies or procedures may also require consultation within or outside the firm (for example, a professional or regulatory body).

Documentation (Ref: [par. .28–.30](#))

- .A51** [Paragraphs 58–61](#) of SQMS No. 1 address the firm's documentation of its system of quality management, which includes the firm's policies and procedures addressing engagements that are required to be subject to engagement quality reviews. This section addresses additional documentation requirements related to such policies and procedures as well as documentation requirements related to the performance of engagement quality reviews undertaken at the engagement level.

- .A52** The form, content, and extent of the documentation of the engagement quality review may depend on the following factors:

- The nature and complexity of the engagement
- The nature of the entity
- The nature and complexity of the matters subject to the engagement quality review
- The extent of the engagement documentation reviewed

- .A53** The performance and notification of the completion of the engagement quality review may be documented in a number of ways. For example, the engagement quality reviewer may document the review of engagement documentation electronically in the IT application for the performance of the engagement. Alternatively, the engagement quality reviewer may document the review through means of a memorandum. The engagement quality reviewer's procedures may also be documented in other ways, for example, in the minutes of the engagement team's discussions when the engagement quality reviewer was present.

- .A54** [Paragraph .24b](#) requires that the firm's policies or procedures preclude the engagement partner from releasing the engagement report until the completion of the engagement quality review, which includes resolving matters raised by the engagement quality reviewer. Provided that all requirements with respect to the performance of the engagement quality review have been fulfilled, the documentation of the review may be finalized after the release of the engagement report but before the assembly of the final engagement file.



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