Quality Management [QM]

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QM Section

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.

QM Section 10

A Firm's System of Quality Management

(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 .15*a*–*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

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 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 specialist[1] 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,

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

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

d. Changes in the system of quality management

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

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

.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 section. (Ref: par. .A20 and par. .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. .A211)

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 *.55c*, 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

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 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.

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 .15*a*–*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

[2] Paragraph .01 of ET section 0.300.030.

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 (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 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 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

[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.]

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.

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[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. Footnote revised, April 2026, to reflect conforming changes necessary due to the issuance of SSAE No. 23.]

- 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.

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. 146[5] 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.

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[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.]

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 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 .21*c*, 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 .26*a* 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
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.	In the context of governance and leadership, this may give rise to a number of quality risks such as the following: • 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.
The characteristics and management style of leadership: The firm is a smaller firm with a few engagement partners with shared authority.	In the context of governance and leadership, this may give rise to a number of quality risks such as the following: • 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.
The complexity and operating characteristics of the firm: The firm has recently completed a merger with another firm.	In the context of resources, this may give rise to a number of quality risks, including the following: • 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

[6] Paragraph 35 of SAS No. 146. [Footnote renumbered by the issuance of SQMS No. 3, March 2023.]

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.

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. 149[7] 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' *International Code of Ethics for Professional Accountants (including International Independence Standards)* 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. Revised, October 2023, to reflect the updated title of the IESBA Code of Ethics for Professional Accountants.]

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.

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[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 (including International Independence Standards)*. [Footnote renumbered by the issuance of SQMS No. 3, March 2023. Footnote revised, October 2023, to reflect the updated title of the IESBA Code of Ethics for Professional Accountants.]

.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. 146[9] 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

[9]Paragraph 23 of SAS No. 146. [Footnote renumbered by the issuance of SQMS No. 3, March 2023.]

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.

[10]Paragraph .11 of AU-C section 210, *Terms of Engagement*. [Footnote renumbered by the issuance of SQMS No. 3, March 2023.]

- 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.

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. 146[11] provides examples of impediments to the maintenance of professional skepticism at the engagement level, unconscious auditor biases

[11]Paragraphs A34–A36 of SAS No. 146. [Footnote renumbered by the issuance of SQMS No. 3, March 2023.]

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.

.A85 SAS No. 146[12] 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 SSARSs, 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

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[12] Paragraph 35 of SAS No. 146. [Footnote renumbered by the issuance of SQMS No. 3, March 2023.]

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.]

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

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. 146[13] 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. 146[14] 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
- 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

[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.]

.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. 146[15] 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).

[15]Paragraphs 25–28 of SAS No. 146. [Footnote renumbered by the issuance of SQMS No. 3, March 2023.]

.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 .33*g*, 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 communicate[16] and the communication process.[17] In some circumstances, it may be appropriate to include information about the firm's system of quality management in

[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.]

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 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, 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

[Revised, February 2026, to reflect a technical correction to remove a reference to listed entities.]

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 .26*a*(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 .38*f*, other relevant information may include the following:

- Information communicated by the firm's network in accordance with paragraphs .51*c* and .52*b* 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

[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.]

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 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.	As part of identifying and assessing quality risks, the firm assesses the quality risks that are required by the network. The firm also designs and implements responses to address the assessed quality risks that are required by the network.
The network requires that the firm design and implement certain responses.	As part of designing and implementing responses, the firm determines • 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 criteria that apply to individuals assigned to work on a component for a group audit.	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.

.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 .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 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 10A

A Firm's System of Quality Control [a]

(Supersedes SQCS No. 7.)

Source: SQCS No. 8; SAS No. 128.

Effective date: Applicable to a CPA firm's system of quality control for its accounting and auditing practice as of January 1, 2012.

- QM section 10, which codifies SQMS No. 1, *A Firm's System of Quality Management*, is effective as of December 15, 2025.
- QM section 20, which codifies SQMS No. 2, *Engagement Quality Reviews*, 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.
- SQMS No. 1 and SQMS No. 2, taken together, superseded QC section 10, *A Firm's System of Quality Control*. (QC section 10 was subsequently transferred to QM section 10A when SQMS Nos. 1–2 were codified.)
- QM section 10 requires the firm to establish policies and procedures that address engagement quality reviews in accordance with SQMS No. 2. QM section 20 addresses (1) the appointment and eligibility of the engagement quality reviewer, and (2) the engagement quality reviewer's responsibilities relating to the performance and documentation of an engagement quality review.
- Because the effective date of SQMS No. 2 is different from SQMS No. 1, QM section 10A has been retained so that practitioners who have not yet implemented SQMS No. 2 may refer to paragraphs .41–.45 of QM section 10A to assist them in properly performing engagement quality reviews. However, it is most effective to implement SQMS No. 2 when SQMS No. 1 is implemented.

[a] Prior to the release of Statement on Quality Management Standards (SQMS) Nos. 1-2, this section used a "QC" identifier. Upon the issuance of SQMS Nos. 1-2, which supersede this content, the title "Quality Control" was changed to "Quality Management," and the section identifiers were changed to "QM."

Introduction

Scope of This Section

.01 This section addresses a CPA firm's responsibilities for its system of quality control for its accounting and auditing practice. This section is to be read in conjunction with the AICPA Code of Professional Conduct and other relevant ethical requirements.

.02 This section, although applicable to audit and attestation engagements performed by CPA firms in accordance with *Government Auditing Standards*, 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*, which are similar to those of this section.

.03 Other professional standards set out additional requirements and guidance on the responsibilities of firm personnel regarding quality control procedures for specific types of engagements. AU-C section 220A, *Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*, for example, addresses quality control procedures for engagements conducted in accordance with generally accepted auditing standards. [Revised, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 122.]

.04 A system of quality control consists of policies designed to achieve the objective set out in paragraph .12 and the procedures necessary to implement and monitor compliance with those policies.

Authority of the SQCSs

.05 This section applies to all CPA firms with respect to engagements in their accounting and auditing practice. The nature and extent of the policies and procedures developed by an individual firm to comply with this section will depend on various factors, such as the size and operating characteristics of the firm and whether it is part of a network.

.06 Statements on Quality Control Standards (SQCSs) contain the objective of the firm in following the SQCSs and requirements designed to enable the firm to meet that stated objective. In addition, SQCSs contain related guidance in the form of application and other explanatory material, as discussed further in paragraph .09, and introductory material that provides context relevant to a proper understanding of the SQCSs and definitions.

.07 The objective provides the context in which the requirements of SQCSs are set and is intended to assist the firm in the following:

- Understanding what needs to be accomplished
- Deciding whether more needs to be done to achieve the objective

.08 SQCSs use two categories of professional requirements, identified by specific terms, to describe the degree of responsibility they impose on firms, as follows:

- *Unconditional requirements*. The firm is required to comply with an unconditional requirement in all cases in which such a requirement is relevant. SQCSs use the word *must* to indicate an unconditional requirement.
- *Presumptively mandatory requirements*. The firm is also required to comply with a presumptively mandatory requirement in all cases in which such a requirement is relevant; however, in rare circumstances, the firm may depart from a presumptively mandatory requirement, provided that the firm documents the justification for the departure and how the alternative policies established, or procedures performed, in the circumstances were sufficient to achieve the objectives of the presumptively mandatory requirement. SQCSs use the word *should* to indicate a presumptively mandatory requirement.

If an SQCS provides that a procedure or action is one that the firm "should consider," the consideration of the procedure or action is presumptively required, whereas carrying out the procedure or action is not. The professional requirements of an SQCS are to be understood and applied in the context of the explanatory material that provides guidance for their application.

.09 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.
- include examples of policies and procedures that may be appropriate in the circumstances.

The words *may*, *might*, and *could*, among others, are used to describe these actions and procedures. 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 SQCSs. When appropriate, additional considerations specific to governmental entities or smaller firms are included within the application and other explanatory material. These additional considerations assist in the application of the requirements in SQCSs. They do not, however, limit or reduce the responsibility of the firm to apply and comply with the requirements in SQCSs.

.10 SQCSs include, under the heading "Definitions," a description of the meanings attributed to certain terms for purposes of the SQCSs. These are provided to assist in the consistent application and interpretation of SQCSs and are not intended to override definitions that may be established for other purposes, whether in law, regulation, or otherwise. The AU-C glossary contains a complete listing of terms defined in this section. It also includes descriptions of other terms found in this section to assist in common and consistent interpretation. [Revised, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 122.]

Effective Date

.11 The provisions of this section are applicable to a CPA firm's system of quality control for its accounting and auditing practice as of January 1, 2012.

Objective

.12 The objective of the firm is to establish and maintain a system of quality control to provide it with reasonable assurance that

a. the firm and its personnel comply with professional standards and applicable legal and regulatory requirements and

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

Definitions

.13 For purposes of SQCSs, 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, compilation, review, 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 of Professional Conduct. 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*.

Engagement documentation. The record of the work performed, results obtained, and conclusions that the practitioner reached (also known as *working papers* or *workpapers*).

Engagement partner. The partner or other person in 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 control review. A process designed to provide an objective evaluation, before the report is released, of the significant judgments the engagement team made and the conclusions it reached in formulating the report. The engagement quality control review process is only for those engagements, if any, for which the firm has determined that an engagement quality control review is required, in accordance with its policies and procedures.

Engagement quality control reviewer. A partner, other person in the firm, suitably qualified external person, or team made up of such individuals, none of whom is part of the engagement team, with sufficient and appropriate experience and authority to objectively evaluate the significant judgments that the engagement team made and the conclusions it reached in formulating the report.

Engagement team. All partners and staff performing the engagement and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes external specialists engaged by the firm or a network firm.[1] The term *engagement team* also excludes individuals within the client's internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of section 610, *Using the Work of Internal Auditors*.

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.

Inspection. A retrospective evaluation of the adequacy of the firm's quality control policies and procedures, its personnel's understanding of those policies and procedures, and the extent of the firm's compliance with them. Inspection includes a review of completed engagements.

Monitoring. A process comprising an ongoing consideration and evaluation of the firm's system of quality control, including inspection or a periodic review of engagement documentation, reports, and clients' financial statements for a selection of completed engagements, designed to provide the firm with reasonable assurance that its system of quality control is designed appropriately and operating effectively.

Network. An association of entities, as defined in ET section 0.400, *Definitions*.

Network firm. A firm or other entity that belongs to a network, as defined in ET section 0.400.

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 may use different titles to refer to individuals with this authority.

Personnel. Partners and staff.

Professional standards. Standards promulgated by the ASB or ARSC under the "General Standards Rule" or the "Compliance With Standards Rule" of the AICPA Code of Professional Conduct, or other standards-setting bodies that set auditing and attest standards applicable to the engagement being performed and relevant ethical requirements.

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

Relevant ethical requirements. Ethical requirements to which the firm and its personnel are subject, which consist of the AICPA Code of Professional Conduct together with rules

[1]Paragraph .06 of AU-C section 620, *Using the Work of an Auditor's Specialist*, defines the term *auditor's specialist*. [Footnote revised, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 122.]

of applicable state boards of accountancy and applicable regulatory agencies that are more restrictive.

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

Suitably qualified external person. An individual outside the firm with the competence and capabilities to act as an engagement partner (for example, a partner of another firm).

[Revised, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 122. As amended, effective for audits of financial statements for periods ending on or after December 15, 2014, by SAS No. 128. Revised, January 2015, to reflect conforming changes necessary due to the issuance of the revised AICPA Code of Professional Conduct, effective December 15, 2014.]

Requirements

Applying and Complying With Relevant Requirements

.14 Personnel within the firm responsible for establishing and maintaining the firm's system of quality control should have an understanding of the entire text of this section, including its application and other explanatory material, to understand its objective and apply its requirements properly.

.15 The firm should comply with each requirement of this section unless, in the circumstances of the firm, the requirement is not relevant to the services provided by a firm's accounting and auditing practice. (Ref: par. .A1)

.16 The requirements are designed to enable the firm to achieve the objective stated in this section. The proper application of the requirements is, therefore, expected to provide a sufficient basis for the achievement of the objective. However, because circumstances vary widely and all such circumstances cannot be anticipated, the firm should consider whether there are particular matters or circumstances that require the firm to establish policies and procedures in addition to those required by this section to meet the stated objective.

Elements of a System of Quality Control

.17 The firm must establish and maintain a system of quality control. The system of quality control should include policies and procedures addressing each of the following elements:

a. Leadership responsibilities for quality within the firm (the tone at the top)

b. Relevant ethical requirements

c. Acceptance and continuance of client relationships and specific engagements

d. Human resources

e. Engagement performance

f. Monitoring

Policies and procedures established by the firm related to each element are designed to achieve reasonable assurance with respect to the purpose of that element. Deficiencies in policies and procedures for an element may result in not achieving reasonable assurance with respect to the purpose of that element; however, the system of quality control as a whole may still be effective in achieving the objective described in paragraph .12.

.18 The firm should document its policies and procedures and communicate them to the firm's personnel. (Ref: par. .A2–.A3)

Leadership Responsibilities for Quality Within the Firm

.19 The firm should establish policies and procedures designed to promote an internal culture based on the recognition that quality is essential in performing engagements. Such policies and procedures should require the firm's leadership (managing partner or board of managing partners, CEO, or equivalent) to assume ultimate responsibility for the firm's system of quality control. (Ref: par. .A4–.A5)

.20 The firm should establish policies and procedures designed to provide it with reasonable assurance that any person or persons assigned operational responsibility for the firm's system of quality control by the firm's leadership has sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility. (Ref: par. .A6)

Relevant Ethical Requirements

.21 The firm should establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements. (Ref: par. .A7–.A9)

Independence

.22 The firm should establish policies and procedures designed to provide it with reasonable assurance that the firm; its personnel; and, when applicable, others subject to independence requirements (including network firm personnel) maintain independence when required by relevant ethical requirements. Such policies and procedures should enable the firm to

a. communicate its independence requirements to its personnel and, when applicable, others subject to them and

b. identify and evaluate circumstances and relationships that create threats to independence and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards or, if considered appropriate, to withdraw from the engagement when withdrawal is possible under applicable law or regulation.

.23 Such policies and procedures should require

a. engagement partners to provide the firm with relevant information about client engagements, including the scope of services, to enable the firm to evaluate the overall effect, if any, on independence requirements;

b. personnel to promptly notify the firm of circumstances and relationships that create a threat to independence so that appropriate action can be taken; and

c. the accumulation and communication of relevant information to appropriate personnel so that

   i. the firm and its personnel can readily determine whether they satisfy independence requirements,

   ii. the firm can maintain and update information relating to independence, and

   iii. the firm can take appropriate action regarding identified threats to independence that are not at an acceptable level.

.24 The firm should establish policies and procedures designed to provide it with reasonable assurance that it is notified of breaches of independence requirements and to enable it to take appropriate actions to resolve such situations. The policies and procedures should include requirements for

a. personnel to promptly notify the firm of independence breaches of which they become aware;

b. the firm to promptly communicate identified breaches of these policies and procedures to

   i. the engagement partner who, with the firm, needs to address the breach and

   ii. other relevant personnel in the firm and, when appropriate, the network and those subject to the independence requirements who need to take appropriate action; and

c. prompt communication to the firm, if necessary, by the engagement partner and the other individuals referred to in subparagraph (b)(ii) of the actions taken to resolve the matter so that the firm can determine whether it should take further action.

.25 At least annually, the firm should obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent by the requirements set forth in the "Independence Rule" (ET sec. 1.200.001) and related interpretations of the AICPA Code of Professional Conduct and the rules of state boards of accountancy and applicable regulatory agencies. (Ref: par. .A10) [Revised, January 2015, to reflect conforming changes necessary due to the issuance of the revised AICPA Code of Professional Conduct, effective December 15, 2014.]

.26 The firm should establish policies and procedures for all audit or attestation engagements for which regulatory or other authorities require the rotation of personnel after a specified period, in compliance with such requirements.

Acceptance and Continuance of Client Relationships and Specific Engagements

.27 The firm should establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide the firm with reasonable assurance that it will undertake or continue relationships and engagements only when the firm

a. is competent to perform the engagement and has the capabilities, including time and resources, to do so; (Ref: par. .A11)

b. can comply with legal and relevant ethical requirements; and

c. has considered the integrity of the client and does not have information that would lead it to conclude that the client lacks integrity. (Ref: par. .A12–.A13)

.28 Such policies and procedures should

a. require the firm to obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. (Ref: par. .A14)

b. require the firm to determine whether it is appropriate to accept the engagement if a potential conflict of interest is identified in accepting an engagement from a new or an existing client.

c. if issues have been identified and the firm decides to accept or continue the client relationship or a specific engagement, require the firm to

   i. consider whether ethical requirements that exist under the "Conflicts of Interest" interpretation (ET sec. 1.110.010) under the “Integrity and Objectivity Rule” (ET sec. 1.100.001) apply, and

   ii. document how the issues were resolved.

[Revised, January 2015, to reflect conforming changes necessary due to the issuance of the revised AICPA Code of Professional Conduct, effective December 15, 2014.]

.29 To minimize the risk of misunderstandings regarding the nature, scope, and limitations of the services to be performed, the firm should establish policies and procedures that provide for obtaining an understanding with the client regarding those services. (Ref: par. .A15)

.30 The firm should establish policies and procedures on continuing an engagement and the client relationship that address the circumstances when the firm obtains information that would have caused it to decline the engagement had that information been available earlier. Such policies and procedures should include consideration of the following:

a. The professional and legal responsibilities that apply to the circumstances, including whether there is a requirement for the firm to report to regulatory authorities

b. The possibility of withdrawing from the engagement or from both the engagement and the client relationship (Ref: par. .A16)

Human Resources

.31 The firm should establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the competence, capabilities, and commitment to ethical principles necessary to

a. perform engagements in accordance with professional standards and applicable legal and regulatory requirements and

b. enable the firm to issue reports that are appropriate in the circumstances. (Ref: par. .A17–.A24)

.32 The firm's policies and procedures should provide that personnel selected for advancement have the qualifications necessary for fulfillment of the responsibilities that they will be called on to assume.

Assignment of Engagement Teams

.33 The firm should assign responsibility for each engagement to an engagement partner and should establish policies and procedures requiring that

a. the identity and role of the engagement partner are communicated to management and those charged with governance;

b. the engagement partner has the appropriate competence, capabilities, and authority to perform the role; and (Ref: par. .A25–.A30)

c. the responsibilities of the engagement partner are clearly defined and communicated to that individual.

.34 The firm should establish policies and procedures to assign appropriate personnel with the necessary competence and capabilities to

a. perform engagements in accordance with professional standards and applicable legal and regulatory requirements and

b. enable the firm to issue reports that are appropriate in the circumstances. (Ref: par. .A31)

Engagement Performance

.35 The firm should establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements and that the firm issues reports that are appropriate in the circumstances. Such policies and procedures should include the following:

a. Matters relevant to promoting consistency in the quality of engagement performance (Ref: par. .A32–.A33)

b. Supervision responsibilities (Ref: par. .A34)

c. Review responsibilities (Ref: par. .A35)

.36 The firm's review responsibility policies and procedures should be determined on the basis that suitably experienced engagement team members, which may include the engagement partner, review work performed by other engagement team members.

Consultation

.37 The firm should establish policies and procedures designed to provide it with reasonable assurance that

a. appropriate consultation takes place on difficult or contentious issues;

b. sufficient resources are available to enable appropriate consultation to take place;

c. the nature and scope of such consultations are documented and are agreed upon by both the individual seeking consultation and the individual consulted; and

d. the conclusions resulting from consultations are documented, understood by both the individual seeking consultation and the individual consulted, and implemented. (Ref: par. .A36–.A40)

Engagement Quality Control Review

.38 The firm should establish criteria against which all engagements covered by this section should be evaluated to determine whether an engagement quality control review should be performed. (Ref: par. .A41)

.39 The firm's policies and procedures should require that if an engagement meets the criteria established, an engagement quality control review should be performed for that engagement.

.40 The firm should establish policies and procedures setting out the nature, timing, and extent of an engagement quality control review. Such policies and procedures should require that the engagement quality control review be completed before the report is released. (Ref: par. .A42–.A44)

.41 The firm should establish policies and procedures to require the engagement quality control review to include

a. discussion of significant findings and issues with the engagement partner;

b. reading the financial statements or other subject matter information and the proposed report;

c. review of selected engagement documentation relating to significant judgments that the engagement team made and the related conclusions it reached; and

d. evaluation of the conclusions reached in formulating the report and consideration of whether the proposed report is appropriate. (Ref: par. .A45–.A47)

Criteria for the Eligibility of Engagement Quality Control Reviewers

.42 The firm should establish policies and procedures to address the appointment of engagement quality control reviewers and to establish their eligibility through

a. the technical qualifications required to perform the role, including the necessary experience and authority, and (Ref: par. .A48)

b. the degree to which an engagement quality control reviewer can be consulted on the engagement without compromising the reviewer's objectivity. (Ref: par. .A49)

.43 The firm should establish policies and procedures designed to maintain the objectivity of the engagement quality control reviewer. Such policies and procedures should provide that although the engagement quality control reviewer is not a member of the engagement team, the engagement quality control reviewer should satisfy the independence requirements relating to the engagements reviewed. Accordingly, such policies and procedures should provide that the engagement quality control reviewer

a. when practicable, is not selected by the engagement partner.

b. does not otherwise participate in the performance of the engagement during the period of review.

c. does not make decisions for the engagement team.

d. is not subject to other considerations that would threaten the reviewer's objectivity.

.44 The firm's policies and procedures should provide for the replacement of the engagement quality control reviewer when the reviewer's ability to perform an objective review is likely to have been impaired. (Ref: par. .A50)

Documentation of the Engagement Quality Control Review

.45 The firm should establish policies and procedures on documentation of the engagement quality control review, which require documentation that

a. the procedures required by the firm's policies on engagement quality control review have been performed;

b. the engagement quality control review has been completed before the report is released; and

c. the reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments that the engagement team made and the conclusions it reached were not appropriate.

Differences of Opinion

.46 The firm should establish policies and procedures for addressing and resolving differences of opinion within the engagement team; with those consulted; and, when applicable, between the engagement partner and the engagement quality control reviewer. (Ref: par. .A51–.A52)

.47 Such policies and procedures should enable a member of the engagement team to document that member's disagreement with the conclusions reached after appropriate consultation.

.48 Such policies and procedures should require the following:

a. Conclusions reached be documented and implemented

b. The report not be released until the matter is resolved

Engagement Documentation

Completion of the Assembly of Final Engagement Files

.49 The firm should establish policies and procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been released. (Ref: par. .A53–.A54)

Confidentiality, Safe Custody, Integrity, Accessibility, and Retrievability of Engagement Documentation

.50 The firm should establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility, and retrievability of engagement documentation. (Ref: par. .A55–.A58)

Retention of Engagement Documentation

.51 The firm should establish policies and procedures for the retention of engagement documentation for a period sufficient to meet the needs of the firm, professional standards, laws, and regulations. (Ref: par. .A59–.A62)

Monitoring

Monitoring the Firm's Quality Control Policies and Procedures

.52 The firm should establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. This process should

a. include an ongoing consideration and evaluation of the firm's system of quality control, including inspection or a periodic review of engagement documentation, reports, and clients' financial statements for a selection of completed engagements;

b. require responsibility for the monitoring process to be assigned to a partner or partners or other persons with sufficient and appropriate experience and authority in the firm to assume that responsibility; and

c. assign the performance of monitoring the firm's system of quality control to qualified individuals. (Ref: par. .A63–.A73)

Evaluating, Communicating, and Remedying Identified Deficiencies

.53 Any system of quality control has inherent limitations that can reduce its effectiveness. Deficiencies in individual engagements covered by this section do not, in and of themselves, indicate that the firm's system of quality control is insufficient to provide it with reasonable assurance that its personnel comply with applicable professional standards.

.54 The firm should evaluate the effect of deficiencies noted as a result of the monitoring process and determine whether they are either

a. instances that do not necessarily indicate that the firm's system of quality control is insufficient to provide it with reasonable assurance that it complies with professional standards and applicable legal and regulatory requirements and that the reports issued by the firm are appropriate in the circumstances or

b. systemic, repetitive, or other significant deficiencies that require prompt corrective action.

.55 The firm should communicate to relevant engagement partners, and other appropriate personnel, deficiencies noted as a result of the monitoring process and recommendations for appropriate remedial action. (Ref: par. .A74)

.56 Recommendations for appropriate remedial actions for deficiencies noted should include one or more of the following:

a. Taking appropriate remedial action in relation to an individual engagement or member of personnel

b. The communication of the findings to those responsible for training and professional development

c. Changes to the quality control policies and procedures

d. Disciplinary action against those who fail to comply with the policies and procedures of the firm, especially those who do so repeatedly

.57 The firm should establish policies and procedures to address cases when the results of the monitoring procedures indicate that a report may be inappropriate or that procedures were omitted during the performance of the engagement. Such policies and procedures should require the firm to

a. determine what further action is appropriate to comply with relevant professional standards and legal and regulatory requirements and

b. consider whether to obtain legal advice.

.58 The firm should communicate, at least annually, the results of the monitoring of its system of quality control to engagement partners and other appropriate individuals within the firm, including the firm's leadership. This communication should be sufficient to enable the firm and these individuals to take prompt and appropriate action, when necessary, in accordance with their defined roles and responsibilities to provide a basis for them to rely on the firm's system of quality control. Information communicated should include the following:

a. A description of the monitoring procedures performed

b. The conclusions drawn from the monitoring procedures

c. When relevant, a description of systemic, repetitive, or other significant deficiencies and of the actions taken to resolve or amend those deficiencies

.59 Some firms operate as part of a network and, for consistency, may implement some of their monitoring procedures on a network basis. When firms within a network operate under common monitoring policies and procedures designed to comply with this section, and these firms place reliance on such a monitoring system, the firm's policies and procedures should require that

a. at least annually, the network communicate the overall scope, extent, and results of the monitoring process to appropriate individuals within the network firms and

b. the network communicate promptly any identified deficiencies in the quality control system to appropriate individuals within the relevant network firm or firms so that the necessary action can be taken in order that engagement partners in the network firms can rely on the results of the monitoring process implemented within the network, unless the firms or the network advise otherwise.

Complaints and Allegations

.60 The firm should establish policies and procedures designed to provide it with reasonable assurance that it deals appropriately with

a. complaints and allegations that the work performed by the firm fails to comply with professional standards and applicable legal and regulatory requirements and

b. allegations of noncompliance with the firm's system of quality control.

As part of this process, the firm should establish clearly defined channels for firm personnel to raise any concerns in a manner that enables them to come forward without fear of reprisals. (Ref: par. .A75)

.61 If, during the investigations into complaints and allegations, deficiencies in the design or operation of the firm's quality control policies and procedures, or instances of noncompliance with the firm's system of quality control by an individual or individuals are identified, the firm should take appropriate actions, as set out in paragraph .56. (Ref: par. .A76–.A77)

Documentation of the System of Quality Control

.62 The firm should establish policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control. (Ref: par. .A78–.A80)

.63 The firm should establish policies and procedures that require retention of documentation for a period of time sufficient to permit those performing monitoring procedures and peer review of the firm to evaluate the firm's compliance with its system of quality control or for a longer period if required by law or regulation.[2]

.64 The firm should establish policies and procedures requiring documentation of complaints and allegations described in paragraph .60 and the responses to them.

Application and Other Explanatory Material

Applying and Complying With Relevant Requirements

Considerations Specific to Smaller Firms (Ref: par. .15)

.A1 This section does not call for compliance with requirements that are not relevant (for example, in the circumstances of a sole practitioner with no staff). Requirements in this section, such as those for policies and procedures for the assignment of appropriate personnel to the engagement team (see paragraph .34), for review responsibilities (see paragraph .36), and for the annual communication of the results of monitoring to engagement partners within the firm (see paragraph .58) are not relevant in the absence of staff.

Elements of a System of Quality Control (Ref: par. .18)

.A2 In general, communication of quality control policies and procedures to firm personnel includes a description of the quality control policies and procedures and the objectives they are designed to achieve and the message that each individual has a personal responsibility for quality and is expected to comply with these policies and procedures. By encouraging firm personnel to communicate their views or concerns on quality control matters, the firm recognizes the importance of obtaining feedback on the firm's system of quality control. Although communication is enhanced if it is in writing, the communication of quality control policies and procedures is not required to be in writing.

[2]PR section 100, *Standards for Performing and Reporting on Peer Reviews*, is applicable to firms enrolled in the AICPA Peer Review Program.

Considerations Specific to Smaller Firms

.A3 Documentation and communication of policies and procedures for smaller firms may be less formal and extensive than for larger firms.

Leadership Responsibilities for Quality Within the Firm

Promoting an Internal Culture of Quality (Ref: par. .19)

.A4 The firm's leadership, and the examples it sets, significantly influences the internal culture of the firm. The promotion of a quality-oriented internal culture depends on clear, consistent, and frequent actions and messages from all levels of the firm's management that emphasize the firm's quality control policies and procedures and the requirement to

a. perform work that complies with professional standards and applicable legal and regulatory requirements.

b. issue reports that are appropriate in the circumstances.

Such actions and messages encourage a culture that recognizes and rewards quality work. These actions and messages may be communicated by, but are not limited to, training seminars, meetings, formal or informal dialogue, mission statements, newsletters, or briefing memoranda. They may be incorporated in partner and staff appraisal procedures and the firm's internal documentation and training materials, such that they will support and reinforce the firm's view on the importance of quality and how, practically, it is to be achieved.

.A5 Of particular importance in promoting an internal culture based on quality is the need for the firm's leadership to recognize that the firm's business strategy is subject to the overarching requirement for the firm to achieve the objectives of the system of quality control in all the engagements that the firm performs. Promoting such an internal culture includes the following:

a. Establishment of policies and procedures that address performance evaluation, compensation, and advancement (including incentive systems) with regard to its personnel in order to demonstrate the firm's overarching commitment to quality

b. Assignment of management responsibilities so that commercial considerations do not override the quality of the work performed

c. Provision of sufficient and appropriate resources for the development, documentation, and support of its quality control policies and procedures

Assigning Operational Responsibility for the Firm's System of Quality Control (Ref: par. .20)

.A6 Sufficient and appropriate experience and ability enables the person or persons responsible for the firm's system of quality control to identify and understand quality control issues and to develop appropriate policies and procedures. Necessary authority enables the person or persons to implement those policies and procedures.

Relevant Ethical Requirements

Compliance With Relevant Ethical Requirements (Ref: par. .21)

.A7 The AICPA Code of Professional Conduct establishes the fundamental principles of professional ethics, which include the following:

- Responsibilities
- The public interest
- Integrity
- Objectivity and independence
- Due care
- Scope and nature of services

.A8 Independence requirements are set forth in the " Independence Rule" and related interpretations of the AICPA Code of Professional Conduct 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 Code of Professional Conduct are set forth in the "Conceptual Framework for Independence" (ET sec. 1.210.010). [Revised, January 2015, to reflect conforming changes necessary due to the issuance of the revised AICPA Code of Professional Conduct, effective December 15, 2014.]

.A9 The fundamental principles are reinforced, in particular, by the following:

- The leadership of the firm
- Education and training
- Monitoring
- A process for dealing with noncompliance

Written Confirmation (Ref: par. .25)

.A10 Written confirmation may be in paper or electronic form. By obtaining confirmation and taking appropriate action on information indicating noncompliance, the firm demonstrates the importance that it attaches to independence and keeps the issue current for, and visible to, its personnel.

Acceptance and Continuance of Client Relationships and Specific Engagements

Competence, Capabilities, and Resources (Ref: par. .27a)

.A11 Consideration of whether the firm has the competence, capabilities, and resources to undertake a new engagement from a new or an existing client involves reviewing the specific requirements of the engagement and the existing partner and staff profiles at all relevant levels, including whether

- firm personnel have knowledge of relevant industries or subject matters or the ability to effectively gain the necessary knowledge;
- firm personnel have experience with relevant regulatory or reporting requirements or the ability to effectively gain the necessary competencies;
- the firm has sufficient personnel with the necessary competence and capabilities;
- specialists are available, if needed;
- individuals meeting the criteria and eligibility requirements to perform an engagement quality control review are available, when applicable; and
- the firm is able to complete the engagement within the reporting deadline.

Integrity of a Client (Ref: par. .27c)

.A12 Matters to consider regarding the integrity of a client include, for example, the following:

- The identity and business reputation of the client's principal owners, key management, and those charged with governance
- 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 governance toward such matters as internal control or aggressive interpretation of accounting standards
- Indications of an inappropriate limitation in the scope of the 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 nonreappointment of the previous firm

The extent of knowledge that a firm will have regarding the integrity of a client will generally grow within the context of an ongoing relationship with that client.

.A13 Sources of information on such matters obtained by the firm may include the following:

- Communications with existing or previous providers of professional accountancy services to the client, in accordance with relevant ethical requirements, and discussions with other third parties
- Inquiry of other firm personnel or third parties, such as bankers, legal counsel, and industry peers
- Background searches of relevant databases

Continuance of a Client Relationship (Ref: par. .28a)

.A14 Deciding whether to continue a client relationship includes consideration of significant issues that have arisen during the current or previous engagements and their implications for continuing the relationship. For example, a client may have started to expand its business operations into an area where the firm does not possess, and cannot obtain, the necessary expertise.

Obtaining an Understanding With the Client (Ref: par. .29)

.A15 Professional standards applicable to the engagement may contain requirements for obtaining a written understanding with the client.

Withdrawal (Ref: par. .30)

.A16 Policies and procedures on withdrawal from an engagement or from both the engagement and the client relationship may address issues that include the following:

- Discussing with the appropriate level of the client's management and those charged with governance the appropriate action that the firm might take based on the relevant facts and circumstances
- If the firm determines that it is appropriate to withdraw, discussing with the appropriate level of the client's management and those charged with governance withdrawal from the engagement or from both the engagement and the client relationship and the reasons for the withdrawal
- Considering whether there is a professional, legal, or regulatory requirement for the firm to remain in place or 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
- Documenting significant matters, consultations, conclusions, and the basis for the conclusions

Human Resources (Ref: par. .31)

.A17 Personnel issues relevant to the firm's policies and procedures related to human resources include, for example, the following:

- Recruitment and hiring, if applicable
- Performance evaluation, compensation, and advancement
- Determining competencies and capabilities, including time to perform assignments
- Professional development
- The estimation of personnel needs

Effective recruitment processes and procedures help the firm select individuals of integrity who have the capacity to develop the competence and capabilities necessary to perform the firm's work and possess the appropriate characteristics to enable them to perform competently. Examples of such characteristics may include meeting minimum academic requirements established by the firm, maturity, integrity, and leadership traits.

.A18 *Competencies and capabilities* are the knowledge, skills, and abilities that qualify personnel to perform an engagement covered by this section. Competencies and capabilities are not measured by periods of time because such a quantitative measurement may not accurately reflect the kinds of experiences gained by personnel in any given time period. Accordingly, for purposes of this section, a measure of overall competency is qualitative rather than quantitative.

.A19 Competence can be developed through a variety of methods; these methods include, for example, the following:

- Professional education
- Continuing professional development, including training
- Work experience
- Mentoring by more experienced staff, such as other members of the engagement team
- Independence education for personnel who are required to be independent

.A20 The continuing competence of the firm's personnel depends, to a significant extent, on an appropriate level of continuing professional development so that personnel maintain their knowledge and capabilities. Effective policies and procedures emphasize the need for all levels of firm personnel to participate in general and industry-specific continuing professional education (CPE) and other professional development activities that enable them to fulfill responsibilities assigned and to satisfy applicable CPE requirements of the AICPA and regulatory agencies. Effective policies and procedures also place importance on passing the Uniform CPA Examination. The firm may provide the necessary training resources and assistance to enable personnel to develop and maintain the required competence and capabilities.

.A21 The firm may use a suitably qualified external person, for example, when internal technical and training resources are unavailable.

.A22 Effective performance evaluation, compensation, and advancement procedures give due recognition and reward to the development and maintenance of competence and commitment to ethical principles. Steps that a firm may take in developing and maintaining competence and commitment to ethical principles include the following:

- Making personnel aware of the firm's expectations regarding performance and ethical principles
- Providing personnel with an evaluation of, and counseling on, performance, progress, and career development
- Helping personnel understand that their compensation and advancement to positions of greater responsibility depend upon, among other things, performance quality and adherence to ethical principles and that failure to comply with the firm's policies and procedures may result in disciplinary action.

Considerations Specific to Smaller Firms

.A23 The size and circumstances of the firm are important considerations in determining the structure of the firm's performance evaluation process. Smaller firms, in particular, may employ less formal methods of evaluating the performance of their personnel.

The Relationship of the Competency Requirement of the Uniform Accountancy Act to the Human Resource Element of Quality Control

.A24 CPAs are required to follow the accountancy laws of the individual licensing jurisdictions in the United States that govern public practice. These jurisdictions may have adopted, in whole or in part, the Uniform Accountancy Act (UAA), which is a model legislative statute, including related administrative rules, designed by the AICPA and the National Association of State Boards of Accountancy to provide a uniform approach to the regulation of the accounting profession. The UAA provides that "[a]ny individual licensee ... who is responsible for supervising attest or compilation services and signs or authorizes someone to sign the accountant's report on the financial statements on behalf of the firm, shall meet the competency requirements set out in the professional standards for such services." A firm's compliance with this section is intended to enable a practitioner who performs accounting and auditing services on the firm's behalf to meet the competency requirement referred to in the UAA. [Revised, January 2015, to reflect conforming changes necessary due to the issuance of the revised AICPA Code of Professional Conduct, effective December 15, 2014.]

Assignment of Engagement Teams

Engagement Partners (Ref: par. .33)

.A25 In most cases, an engagement partner will have gained the necessary competencies through relevant and appropriate experience in engagements covered by this section. In some cases, however, an engagement partner may have obtained the necessary competencies through disciplines other than public practice, such as in relevant industry, governmental, and academic positions. When necessary, the experience of the engagement partner may be supplemented by CPE and consultation. The following are examples:

- An engagement partner whose recent experience has consisted primarily in providing tax services may acquire the competencies necessary in the circumstances to perform a compilation or review engagement by obtaining relevant CPE.
- An engagement partner whose experience consists of performing review and compilation engagements may be able to obtain the necessary competencies to perform an audit by becoming familiar with the industry in which the client operates, obtaining CPE relating to auditing, using consulting sources during the course of performing the audit engagement, or any combination of these.
- A person in academia might obtain the necessary competencies to perform engagements covered by this section by (*a*) obtaining specialized knowledge through teaching or authorship of research projects or similar papers and (*b*) performing a rigorous self-study program or by engaging a consultant to assist on such engagements.

[Revised, January 2015, to reflect conforming changes necessary due to the issuance of the revised AICPA Code of Professional Conduct, effective December 15, 2014.]

.A26 The characteristics of a particular client, industry, and the kind of service being provided determine the nature and extent of competencies established by a firm that are expected of the engagement partner. For example

- the competencies expected of an engagement partner to compile financial statements would be different than those expected of a practitioner engaged to review or audit financial statements.
- supervising engagements and signing or authorizing others to sign reports for clients in certain industries or engagements, such as financial services, governmental, or employee benefit plan engagements, would require different competencies than those expected in performing attest services for clients in other industries.
- the engagement partner for an attestation engagement to examine the effectiveness of an entity's internal control over financial reporting that is integrated with an audit of financial statements would be expected to have technical proficiency in understanding and evaluating the effectiveness of controls, whereas an engagement partner of an attestation engagement to examine investment performance statistics would be expected to have different competencies, including an understanding of the subject matter of the underlying assertion.

.A27 In practice, the competencies necessary for the engagement partner are broad and varied in both their nature and number. Competencies include the following, as well as other competencies as necessary in the circumstances:

- *Understanding of the role of a system of quality control and the Code of Professional Conduct*. An understanding of the role of a firm's system of quality control and the AICPA's Code of Professional Conduct, both of which play critical roles in assuring the integrity of the various kinds of reports.

- *Understanding of the service to be performed*. An understanding of the performance, supervision, and reporting aspects of the engagement. This understanding is usually gained through actual participation under appropriate supervision in that type of engagement.
- *Technical proficiency*. An understanding of the applicable professional standards, including those standards directly related to the industry in which a client operates, and the kinds of transactions in which a client engages.
- *Familiarity with the industry*. An understanding of the industry in which a client operates to the extent required by professional standards applicable to the kind of service being performed. In performing an audit or review of financial statements, this understanding would include an industry's organization and operating characteristics sufficient to identify areas of high or unusual risk associated with an engagement and to evaluate the reasonableness of industry-specific estimates.
- *Professional judgment*. Skills that indicate sound professional judgment. In performing engagements covered by this section, such skills would typically include the ability to exercise professional skepticism and identify areas requiring special consideration, including, for example, the evaluation of the reasonableness of estimates and representations made by management and the determination of the kind of report appropriate in the circumstances.
- *Understanding the organization's IT systems*. A sufficient understanding of how the organization is dependent on, or enabled by, information technologies and the manner in which the information systems are used to record and maintain financial information to determine when involvement of an IT professional is necessary for an audit engagement.

Interrelationship of Competencies and Other Elements of a Firm's System of Quality Control

.A28 The competencies previously listed are interrelated and gaining one particular competency may be related to achieving another. For example, familiarity with the client's industry interrelates with a practitioner's ability to make professional judgments relating to the client.

.A29 In establishing policies and procedures related to the nature of competencies needed by the engagement partner of an engagement, a firm may consider the requirements of policies and procedures established for other elements of quality control. For example, a firm might consider its requirements related to engagement performance in determining the nature of competency requirements that describe the degree of technical proficiency necessary in a given set of circumstances.

.A30 Policies and procedures may include systems to monitor the workload and availability of engagement partners so as to enable these individuals to have sufficient time to adequately discharge their responsibilities.

Engagement Teams (Ref: par. .34)

.A31 The firm's assignment of engagement teams and the determination of the level of supervision required include, for example, consideration of the engagement team's

- understanding of, and practical experience with, engagements of a similar nature and complexity through appropriate training and participation;
- understanding of professional standards and legal and regulatory requirements;
- technical knowledge and expertise, including knowledge of relevant IT;
- knowledge of relevant industries in which the clients operate;
- ability to apply professional judgment; and
- understanding of the firm's quality control policies and procedures.

Generally, as the ability and experience levels of assigned staff increase, the need for direct supervision decreases.

Engagement Performance

Consistency in the Quality of Engagement Performance (Ref: par. .35a)

.A32 The firm promotes consistency in the quality of engagement performance through its policies and procedures. This is often accomplished through written or electronic manuals, software tools or other forms of standardized documentation, and industry or subject matter-specific guidance materials. Matters addressed may include the following:

- How engagement teams are briefed on the engagement to obtain an understanding of the objectives of their work
- Processes for complying with applicable engagement standards
- Processes of engagement supervision, staff training, and mentoring
- Methods of reviewing the work performed, the significant judgments made, and the type of report being issued
- Appropriate documentation of the work performed and of the timing and extent of the review
- Processes to keep all policies and procedures current

.A33 Appropriate teamwork and training assist less experienced members of the engagement team to clearly understand the objectives of the assigned work.

Supervision (Ref: par. .35b)

.A34 Engagement supervision includes the following:

- 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

Review (Ref: par. .35c)

.A35 A review consists of consideration of whether

- 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; and
- the objectives of the engagement procedures have been achieved.

Consultation (Ref: par. .37)

.A36 Consultation includes discussion at the appropriate professional level with individuals within or outside the firm who have relevant specialized expertise.

.A37 Consultation uses appropriate research resources, as well as the collective experience and technical expertise of the firm. Consultation helps promote quality and improves the application of professional judgment. Appropriate recognition of consultation in the firm's policies and procedures helps promote a culture in which consultation is recognized as a strength and personnel are encouraged to consult on difficult or contentious issues.

.A38 Effective consultation on significant technical, ethical, and other matters within the firm or, when applicable, outside the firm can be achieved when those consulted

- are given all the relevant facts that will enable them to provide informed advice and

- have appropriate knowledge, authority, and experience

and when conclusions resulting from consultations are appropriately documented and implemented.

.A39 Documentation that is sufficiently complete and detailed of consultations with other professionals that involve difficult or contentious matters contributes to an understanding of

- the issue on which consultation was sought and
- the results of the consultation, including any decisions made, the basis for those decisions, and how they were implemented.

Considerations Specific to Smaller Firms

.A40 A firm needing to consult externally may take advantage of advisory services provided by the following:

- Other firms
- Professional and regulatory bodies
- Commercial organizations that provide relevant quality control services

Before contracting for such services, consideration of the competence and capabilities of the external provider helps the firm determine whether the external provider is suitably qualified for that purpose.

Engagement Quality Control Review

Criteria for an Engagement Quality Control Review (Ref: par. .38)

.A41 The structure and nature of the firm's practice are important considerations in establishing criteria for determining which engagements are to be subject to an engagement quality control review. Such criteria may include, for example, the following:

- The nature of the engagement, including the extent to which it involves a matter of public interest
- The identification of unusual circumstances or risks in an engagement or class of engagements
- Whether laws or regulations require an engagement quality control review

Nature, Timing, and Extent of the Engagement Quality Control Review (Ref: par. .40–.41)

.A42 An engagement quality control review may include consideration of the following:

- The engagement team's evaluation of the firm's independence in relation to the specific engagement
- Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters and the conclusions arising from those consultations
- Whether documentation selected for review reflects the work performed in relation to the significant judgments and supports the conclusions reached

.A43 If the engagement quality control review is completed after the report is dated and identifies instances where additional procedures are needed or additional evidence is required, the date of the report 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.

.A44 Conducting the engagement quality control review in a timely manner at appropriate stages during the engagement allows significant issues to be promptly resolved to the engagement quality control reviewer's satisfaction before the report is released.

.A45 The extent of the engagement quality control review may depend upon, among other things, the complexity of the engagement and the risk that the report might not be appropriate in the circumstances. The performance of an engagement quality control review does not reduce the responsibilities of the engagement partner.

.A46 Other matters relevant to evaluating the significant judgments made by the engagement team that may be considered in an engagement quality control review for audits, as well as reviews of financial statements and other assurance and related services engagements, include the following:

- Significant risks identified during the engagement and the responses to those risks
- Judgments made, particularly with respect to materiality and significant risks
- The significance and disposition of corrected and uncorrected misstatements identified during the engagement
- The matters to be communicated to management and those charged with governance and, when applicable, other parties, such as regulatory bodies

.A47 When the engagement quality control reviewer makes recommendations that the engagement partner does not accept and the matter is not resolved to the reviewer's satisfaction, the firm's procedures for dealing with differences of opinion apply.

Criteria for the Eligibility of Engagement Quality Control Reviewers

Sufficient and Appropriate Technical Expertise, Experience, and Authority (Ref: par. .42*a*)

.A48 What constitutes sufficient and appropriate technical expertise, experience, and authority depends on the circumstances of the engagement.

Consultation With the Engagement Quality Control Reviewer (Ref: par. .42*b*)

.A49 The engagement partner may consult the engagement quality control reviewer at any stage during the engagement (for example, to establish that a judgment made by the engagement partner will be acceptable to the engagement quality control reviewer). Such consultation avoids identification of differences of opinion at a late stage of the engagement and does not necessarily impair the engagement quality control reviewer's eligibility to perform the role. When the nature and extent of the consultations become significant, the reviewer's objectivity may be impaired unless both the engagement team and the reviewer are careful to maintain the reviewer's objectivity. When this is not possible, another individual within the firm or a suitably qualified external person may be appointed to take on the role of either the engagement quality control reviewer or the person to be consulted on the engagement.

Objectivity of the Engagement Quality Control Reviewer (Ref: par. .43–.44)

Considerations Specific to Smaller Firms

.A50 Suitably qualified external persons may be contracted when sole practitioners or small firms identify engagements requiring engagement quality control reviews and no person in the firm meets the eligibility requirements for an engagement quality control reviewer. Alternatively, some sole practitioners or small firms may wish to use other firms to facilitate engagement quality control reviews. When the firm contracts suitably qualified external persons or other firms, the requirements in paragraphs .43–.44 and the guidance in paragraph .A49 apply.

Differences of Opinion (Ref: par. .46)

.A51 Effective procedures encourage identification of differences of opinion at an early stage, provide clear guidelines about the successive steps to be taken thereafter, and require documentation regarding the resolution of the differences and the implementation of the conclusions reached.

.A52 Procedures to resolve such differences may include consulting with another practitioner or firm or a professional or regulatory body.

Engagement Documentation

Completion of the Assembly of Final Engagement Files (Ref: par. .49)

.A53 Professional standards, law, or regulation may prescribe the time limits by which the assembly of final engagement files for specific types of engagements is to be completed. When no such time limits are prescribed, paragraph .49 requires the firm to establish time limits that reflect the need to complete the assembly of final engagement files on a timely basis.

.A54 When two or more different reports are issued regarding the same subject matter information of an entity, the firm's policies and procedures relating to time limits for the assembly of final engagement files address each report as if it were for a separate engagement. This may, for example, be the case when the firm issues an auditor's report on financial information prepared in accordance with generally accepted accounting principles and, at a subsequent date, an auditor's report on the same financial information prepared in accordance with a special purpose framework for regulatory purposes.

Confidentiality, Safe Custody, Integrity, Accessibility, and Retrievability of Engagement Documentation (Ref: par. .50)

.A55 Relevant ethical requirements establish an obligation for the firm's personnel to observe at all times the confidentiality of information contained in engagement documentation, unless specific client authority has been given to disclose information or a legal or professional duty exists to do so. Specific laws or regulations may impose additional obligations on the firm's personnel to maintain client confidentiality, particularly when data of a personal nature are concerned.

.A56 Whether engagement documentation is in paper, electronic, or other media, the integrity, accessibility, or retrievability of the underlying data may be compromised if the documentation could be altered, added to, or deleted without the firm's knowledge or if it could be permanently lost or damaged. Accordingly, controls that the firm designs and implements to avoid unauthorized alteration or loss of engagement documentation may include those that

- enable the determination of when and by whom engagement documentation was prepared or reviewed;
- protect the integrity of the information at all stages of the engagement, especially when the information is shared within the engagement team or transmitted to other parties via electronic means;
- prevent unauthorized changes to the engagement documentation; and
- allow access to the engagement documentation by the engagement team and other authorized parties, as necessary, to properly discharge their responsibilities.

.A57 Controls that the firm designs and implements to maintain the confidentiality, safe custody, integrity, accessibility, and retrievability of engagement documentation may include the following:

- The use of a password by engagement team members and data encryption to restrict access to electronic engagement documentation to authorized users
- Appropriate back-up routines for electronic engagement documentation at appropriate stages during the engagement
- Procedures for properly distributing engagement documentation to the team members at the start of the engagement, processing it during the engagement, and collating it at the end of the engagement
- Procedures for restricting access to, and enabling proper distribution and confidential storage of, hard copy engagement documentation

.A58 For practical reasons, original paper documentation may be electronically scanned or otherwise copied to another media for inclusion in engagement files. In such cases, the firm's procedures designed to maintain the integrity, accessibility, and retrievability of the documentation may include requiring the engagement teams to

- generate scanned copies that reflect the entire content of the original paper documentation, including manual signatures, cross-references, and annotations.
- integrate the scanned copies into the engagement files, including indexing and signing off on the scanned copies as necessary.
- enable the scanned copies to be retrieved and printed as necessary.

There may be legal, regulatory, or other reasons for a firm to retain original paper documentation.

Retention of Engagement Documentation (Ref: par. .51)

.A59 The needs of the firm for retention of engagement documentation and the period of such retention will vary with the nature of the engagement and the firm's circumstances (for example, whether the engagement documentation is needed to provide a record of matters of continuing significance to future engagements). The retention period may also depend on other factors, such as whether professional standards, law, or regulation prescribe specific retention periods for certain types of engagements or whether generally accepted retention periods exist in the absence of specific legal or regulatory requirements.

.A60 In the specific case of audit engagements, the retention period would be no shorter than five years from the report release date.[3]

.A61 Procedures that the firm may adopt for retention of engagement documentation include those that enable the requirements of paragraph .51 to be met during the retention period, such as, for example, procedures to

- enable the retrieval of, and access to, the engagement documentation during the retention period, particularly in the case of electronic documentation because the underlying technology may be upgraded or changed over time.
- provide, when necessary, a record of changes made to engagement documentation after the assembly of engagement files has been completed.
- enable authorized external parties to access and review specific engagement documentation for quality control or other purposes.

Ownership of Engagement Documentation

.A62 Unless otherwise specified by law or regulation, engagement documentation is the property of the firm. The firm may, at its discretion, make portions of, or extracts from,

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[3] Paragraph .17 of AU-C section 230, *Audit Documentation*. [Footnote revised, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 122.]

engagement documentation available to clients, provided that such disclosure does not undermine the validity of the work performed or, in the case of assurance engagements, the independence of the firm or its personnel.

Monitoring

Monitoring the Firm's Quality Control Policies and Procedures (Ref: par. .52)

.A63 The purpose of monitoring compliance with quality control policies and procedures is to assess, for the system of quality control as a whole, whether the firm is achieving the objective described in paragraph .12 through an evaluation of the following:

- Adherence to professional standards and applicable legal and regulatory requirements
- Whether the system of quality control has been appropriately designed and effectively implemented
- Whether the firm's quality control policies and procedures have been operating effectively so that reports that are issued by the firm are appropriate in the circumstances

The evaluation may identify circumstances that necessitate changes to, or improve compliance with, the firm's policies and procedures to provide the firm with reasonable assurance that its system of quality control is effective.

.A64 Ongoing consideration and evaluation of the system of quality control may include matters such as the following:

- Review of selected administrative and personnel records pertaining to the quality control elements
- Review of engagement documentation, reports, and clients' financial statements
- Discussions with the firm's personnel
- Determination of corrective actions to be taken and improvements to be made in the system, including providing feedback into the firm's policies and procedures relating to education and training
- Communication to appropriate firm personnel of weaknesses identified in the system, in the level of understanding of the system, or compliance with the system
- Follow-up by appropriate firm personnel so that necessary modifications are promptly made to the quality control policies and procedures

.A65 Monitoring procedures also may include an assessment of the following:

- The appropriateness of the firm's guidance materials and any practice aids

- New developments in professional standards and legal and regulatory requirements and how they are reflected in the firm's policies and procedures, when appropriate
- Written confirmation of compliance with policies and procedures on independence
- The effectiveness of continuing professional development, including training
- Decisions related to acceptance and continuance of client relationships and specific engagements
- Firm personnel's understanding of the firm's quality control policies and procedures and implementation thereof

.A66 Some of the monitoring procedures discussed previously may be accomplished through the performance of the following:

- Engagement quality control review
- Review of engagement documentation, reports, and clients' financial statements for selected engagements after the report release date
- Inspection procedures

Reviews of the work or report when performed by engagement team members prior to the date of the report are not monitoring procedures.

.A67 The need for, and extent of, inspection procedures depends, in part, on the existence and effectiveness of the other monitoring procedures. The nature of inspection procedures varies based on the firm's quality control policies and procedures and the effectiveness and results of other monitoring procedures.

.A68 The inspection of a selection of completed engagements may be performed on a cyclical basis. For example, engagements selected for inspection may include at least one engagement for each engagement partner over an inspection cycle that spans three years. The manner in which the inspection cycle is organized, including the timing of selection of individual engagements, depends on many factors, such as the following:

- The size of the firm
- The number and geographical location of offices
- The results of previous monitoring procedures
- The degree of authority of both personnel and office (for example, whether individual offices are authorized to conduct their own inspections or whether only the head office may conduct them)
- The nature and complexity of the firm's practice and organization
- The risks associated with the firm's clients and specific engagements

.A69 Inspection procedures with respect to the engagement performance element of a quality control system are particularly appropriate in a firm with more than a limited number of management-level individuals responsible for the conduct of its accounting and auditing practice.

.A70 The inspection process involves the selection of individual engagements, some of which may be selected without prior notification to the engagement team. In determining the scope of the inspections, the firm may take into account the scope or conclusions of a peer review or regulatory inspections.

The Relationship of Peer Review to Monitoring

.A71 A peer review does not substitute for all monitoring procedures. However, because the objective of a peer review is similar to that of inspection procedures, a firm's quality control policies and procedures may provide that a peer review conducted under standards established by the AICPA may 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.

Considerations Specific to Smaller Firms

.A72 In small firms with a limited number of persons with sufficient and appropriate experience and authority in the firm, monitoring procedures may need to be performed by some of the same individuals who are responsible for compliance with the firm's quality control policies and procedures. This includes review of engagement working papers, reports, and clients' financial statements by the engagement partner or other qualified personnel after the report release date. To effectively monitor one's own compliance with the firm's policies and procedures, it is necessary that an individual be able to critically review his or her own performance, assess his or her own strengths and weaknesses, and maintain an attitude of continual improvement. 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) may indicate the need to have quality control policies and procedures monitored by another qualified individual.

.A73 Having an individual inspect his or her own compliance with a quality control system may be less effective than having such compliance inspected by another qualified individual. When one individual inspects his or her own compliance, the firm has a higher risk that noncompliance with policies and procedures will not be detected. Accordingly, a firm with a limited number of persons with sufficient and appropriate experience and authority in the firm may find it beneficial to engage a suitably qualified external person or another firm to perform engagement inspections and other monitoring procedures.

Communicating Deficiencies (Ref: par. .55)

.A74 The reporting of identified deficiencies to individuals other than the relevant engagement partners need not include an identification of the specific engagements concerned, unless such identification is necessary for the proper discharge of the responsibilities of the individuals other than the engagement partners.

Complaints and Allegations

Source of Complaints and Allegations (Ref: par. .60)

.A75 Complaints and allegations of noncompliance with the firm's system of quality control (which do not include those that are clearly frivolous) may originate from within or outside the firm. They may be made by firm personnel, clients, state boards of accountancy, other regulators, or other third parties. They may be received by engagement team members or other firm personnel.

Investigation Policies and Procedures (Ref: par. .61)

.A76 Policies and procedures established for the investigation of complaints and allegations may include, for example, that the partner supervising the investigation

- has sufficient and appropriate experience,
- has authority within the firm, and
- is otherwise not involved in the engagement.

The partner supervising the investigation may involve legal counsel as necessary.

Considerations Specific to Smaller Firms

.A77 In the case of firms with few partners, it may not be practicable for the partner supervising the investigation not to be involved in the engagement. These small firms and sole practitioners may use the services of a suitably qualified external person or another firm to carry out the investigation into complaints and allegations.

Documentation of the System of Quality Control (Ref: par. .62)

.A78 The form and content of documentation evidencing the operation of each of the elements of the system of quality control is a matter of judgment and depends on a number of factors, including the following:

- The size of the firm and the number of offices
- The nature and complexity of the firm's practice and organization

For example, large firms may use electronic databases to document matters such as independence confirmations, performance evaluations, and the results of monitoring inspections.

.A79 Appropriate documentation relating to monitoring includes, for example, the following:

- Monitoring procedures, including the procedure for selecting completed engagements to be inspected
- A record of the evaluation of the following:

  - — Adherence to professional standards and applicable legal and regulatory requirements
  - — Whether the system of quality control has been appropriately designed and effectively implemented
  - — Whether the firm's quality control policies and procedures have been appropriately applied so that the reports that are issued by the firm are appropriate in the circumstances
- Identification of the deficiencies noted, an evaluation of their effect, and the basis for determining whether and what further action is necessary

Considerations Specific to Smaller Firms

.A80 Smaller firms may use more informal methods in the documentation of their systems of quality control, such as manual notes, checklists, and forms.

Exhibit — Comparison of Section 10, *A Firm's System of Quality Control*, and International Standard on Quality Control 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

.A81

This analysis was prepared by the AICPA Audit and Attest Standards staff to highlight substantive differences between section 10, *A Firm's System of Quality Control*, and International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and the rationale therefore. This analysis is not authoritative and is prepared for informational purposes only. It has not been acted on or reviewed by the Auditing Standards Board (ASB).

Differences in Language

The ASB has made various changes to the language throughout section 10, as compared with ISQC 1. Such changes have been made to use terms applicable in the United States and to make section 10 easier to read and apply. The ASB believes that such changes will not create differences between the application of ISQC 1 and the application of section 10.

Requirements in Section 10 Not in ISQC 1

Section 10 requires firms to establish policies and procedures providing

- in paragraph .30, for obtaining an understanding with the client regarding the nature, scope, and limitations of the services to be performed.
- in paragraph .33, that personnel selected for advancement have the qualifications necessary for fulfillment of the responsibilities they will be called on to assume.
- in paragraph .44, that although the engagement quality control reviewer is not a member of the engagement team, the engagement quality control reviewer should satisfy the independence requirements relating to the engagements reviewed.
- in paragraph .48, that when differences of opinion exist, a member of the engagement team be able to document that member's disagreement with the conclusions reached, after appropriate consultation.

ISQC 1 does not have equivalent requirements.

Requirements in ISQC 1 Not in Section 10

Paragraph 25 of ISQC 1 requires the firm to establish policies and procedures setting out criteria for determining the need for safeguards to reduce the familiarity threat to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time. The ASB believes that the familiarity threat should not be singled out among other threats to independence.

Paragraph 48(a) of ISQC 1 requires including, on a cyclical basis, inspection of at least one completed engagement for each engagement partner as a monitoring procedure. The ASB believes that this requirement is overly prescriptive and that a risk-based approach to inspections is more appropriate.

Requirements in ISQC 1 Revised in Section 10

Paragraph .41 of section 10 requires that when an engagement quality control review is performed, the engagement quality control review be completed before the report is released. Paragraph 36 of ISQC 1 requires that the quality control review be completed before the report is dated. The ASB believes that an engagement quality control review is an independent review of the engagement team's significant judgments, including the date selected by the engagement team to date the report. As noted in the application material to section 10, when the engagement quality control review results in additional procedures having to be performed, the date of the report would be changed.

Paragraph 48(c) of ISQC 1 requires that those performing the engagement or the engagement quality control review are not involved in inspecting the engagements. Paragraph .53*c* of section 10, consistent with the requirement in paragraph 100 of Statement on Quality Control Standards No. 7, *A Firm's System of Quality Control*, requires that performance of monitoring of the firm's system of quality control be assigned to qualified individuals. Paragraph .A72 of section 10 notes that in small firms with a limited number of persons with sufficient and appropriate experience and authority in the firm, monitoring procedures may need to be performed by some of the same individuals who are responsible for compliance with the firm's quality control policies and procedures. The ASB concluded that it was not necessary to change existing practice because in the United States, the peer review process provides a safeguard and provides evidence that the monitoring procedures are effective.

Paragraph A49 of ISQC 1 references the requirement in paragraph 40 of ISQC 1 to establish policies and procedures to maintain the objectivity of the engagement quality control reviewer and states, "Accordingly, such policies and procedures provide ...." The ASB believes that notwithstanding its placement as application material, the language is indicative of a requirement and, accordingly, has included a requirement for the provision of these specific policies and procedures in paragraph .44 of section 10. The ASB believes this will not create a difference in the application of ISQC 1 and the application of section 10.

[Revised, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 122.]

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:

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

.02 This section applies to all engagements for which an engagement quality review is required to be performed in accordance with section 10, *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 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 section 10.[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.

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[1]Paragraph .35*f* of section 10.

[2]See footnote 1.

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

.05 Section 10 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 section 10[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 section 10, 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[5] 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]

.07 As explained in section 10, 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.

.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

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[3]Paragraph .25 of section 10.

[4]Paragraph .35*f* of section 10.

[5]The term *auditing and accounting practice* is defined in paragraph .17 of section 10.

[6]Paragraph .15 of section 10.

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. section 10[7] explains the terms *objective*, *requirements*, *application material and other explanatory material*, *introductory material*, and *definitions*.

Effective Date

.11 This section is effective for

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

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)

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[7] Paragraphs .12 and .A6–.A9 of section 10.

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.

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 .18*c* 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 section 10 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 Section 10 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 risks[9] 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

[8] Paragraph .A92 of section 10.

[9] See footnote 8.

- 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).

.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 regulations[10] 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:

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

- 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 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 AU-C section 220, *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,

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[11] Paragraph .36 of AU-C section 220, *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*.

[12] Paragraph .65 of AT-C section 105, *Concepts Common to All Engagements*. [Footnote revised, April 2026, to reflect conforming changes necessary due to the issuance of SSAE No. 23.]

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.
- 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.

[13] Paragraph .A49 of section 10.

- 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.

[Revised, February 2026, to reflect a technical correction to remove a reference to listed entities.]

.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 .21*a* 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, 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 .21*a*. 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 .25*a* 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 .25*b*.

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

.A35 For audits of financial statements, SAS No. 146[14] requires the engagement partner to review audit documentation relating to significant matters[15] 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, AU-C section 220[16] 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

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[14]Paragraph .31 of AU-C section 220.

[15]Paragraph .08*c* of AU-C section 230, *Audit Documentation*.

[16]Paragraph .A93 of AU-C section 220.

- 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, AU-C section 220[17] 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 AU-C section 220[20] 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.

[17]Paragraphs .A33–.A35 of AU-C section 220.

[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 AU-C section 220.

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

.A45 Section 10[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. .25*f*)

.A46 AU-C section 220[22] 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. AU-C section 220 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 AU-C section 220 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 .25*f* is applicable to those engagements.

Engagement Quality Reviewer's Review of Financial Statements and Engagement Reports (Ref: par. .25*g*)

.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).

[21] Paragraphs .32*d*–*e* and .A80–.A83 of section 10.

[22] Paragraph .40*a* of AU-C section 220.

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 section 10 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 .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.

QM Appendixes

QM Appendix

Substantial Differences Between the ISQMs and the SQMSs

Comparison of Section 10, *A Firm's System of Quality Management*, and International Standard on Quality Management 1, *Quality Management for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

This analysis was prepared by the AICPA Audit and Attest Standards staff to highlight substantive differences between the International Standards on Quality Management (ISQMs) and the Statements on Quality Management Standards (SQMSs) codified in QM sections 10–20, and the rationale therefore. This analysis is not authoritative and is prepared for informational purposes only. It has not been acted on or reviewed by the Auditing Standards Board (ASB).

This analysis compares the ISQMs included in the 2022 edition of the *Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements*, to the AICPA's *Professional Standards* as of January 2023. References to SQMSs are made to the relevant QM sections. This analysis describes the differences in terms of

a. differences in wording,

b. requirements in the ISQMs not in the QM sections,

c. requirements in the QM sections not in the ISQMs and,

d. differences between requirements.

General

In converging with the ISQMs, the ASB has made various changes to the wording of the ISQMs throughout the SQMSs. Such changes have been made to use terms applicable in the United States and to make the SQMSs easier to read and apply in the United States. The ASB believes that such changes do not create differences between the application of the ISQMs and the application of the SQMSs. Selected changes are described in the analysis that follows.

ISQM 1, *Quality Management for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, Compared to Section 10, *A Firm's System of Quality Management*

Requirements in ISQM 1 Not in Section 10

Paragraph 35 of ISQM 1 contains requirements relating to audits of listed entities. Such requirements are not applicable to audits of nonissuers in the United States and, accordingly, such requirements are not included in GAAS.

Paragraph 39(b) of ISQM 1 prohibits the engagement team members or the engagement quality reviewer from performing any inspection of that engagement. Section 10 does not include this prohibition. The ASB concluded that it was not necessary to change existing practice because in the United States, the peer review process provides a safeguard and provides evidence whether the monitoring procedures are effective.

ISQM 2, *Engagement Quality Reviews*, Compared to Section 20, *Engagement Quality Reviews*

Requirements in ISQM 2 Not in Section 20

Paragraph 19 of ISQM 2 requires a cooling-off period of two years before the engagement partner can assume the role of engagement quality reviewer. Section 20 does not include this requirement. The AICPA Code of Professional Conduct does not require engagement partner rotation, and ASB believes it would be inconsistent in the US to require a cooling-off period for engagement quality reviewers but not engagement partner rotation.

Requirements in ISQM 2 Revised in Section 20

Paragraph 24(b) of ISQM 2 precludes the engagement partner from *dating* the engagement report before receiving notification that the engagement quality review is complete. Paragraph .24*b* of section 20 precludes the engagement partner from *releasing* the engagement report before receiving notification that the engagement quality review is complete. The ASB believes that the flexibility of using the report release date provides greater benefit than the logistical cost of restricting the time available for completing the engagement quality review. As noted in the application material to section 20, when the engagement quality review results in additional procedures having to be performed, the date of the report would be changed.