

# **QUALITY MANAGEMENT STANDARDS LEADING EDGE ALLIANCE – COLLABORATION GROUP NOVEMBER 6, 2023**

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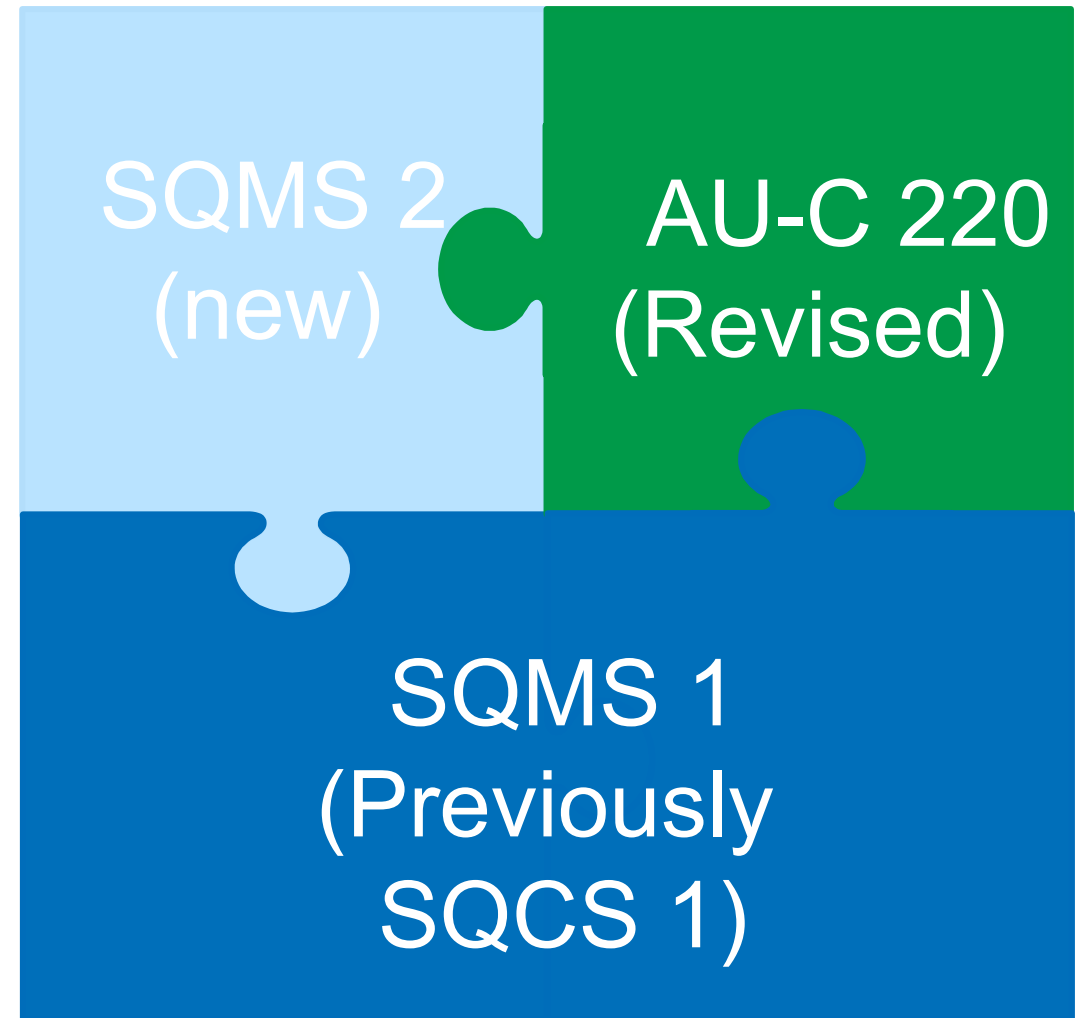


## AGENDA

- Overview of the standards (excerpts from AICPA 4-Part Webinar Series)
- Anders CPAs + Advisors QM Adoption Journey

# New Quality Management Standards

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



# The Quality Management Standards

SQMS 1: Quality management at the firm level



SQMS 2: Engagement quality reviews  
(part of quality management at the firm level)



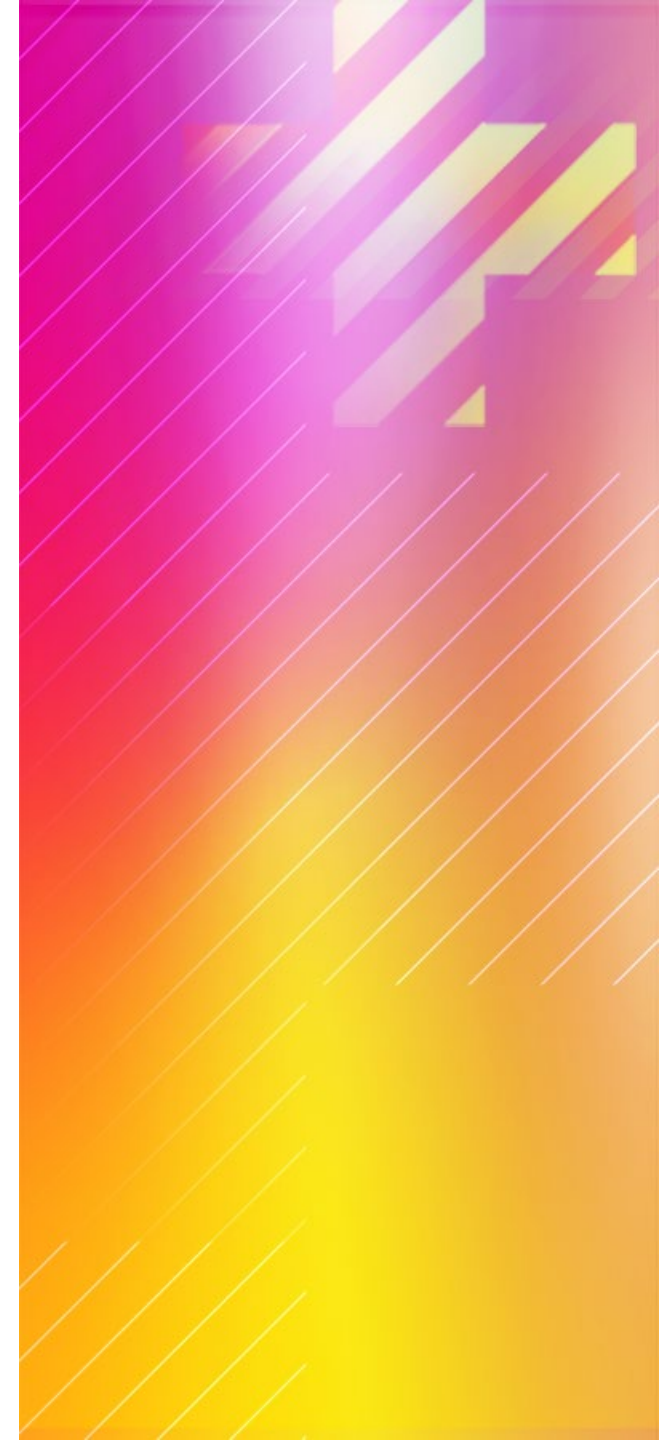
SAS No. 146: Quality management at the engagement level



***Affects every firm that performs engagements in accordance with SASs, SSAEs or SSARS.***

# SQMS No. 1: Key Changes

- Focus on quality **management**, not quality control
- **Customize and tailor** the system of quality management (SQM) to the nature and circumstances of the firm and the engagements it performs
- Focus on achieving quality objectives through identifying quality risks and responding to quality risks
- **More robust** leadership and governance requirements
- Modernization: technology, networks, and external service providers
- Improved information and communication
- **Enhanced** monitoring and remediation process



# SQMS 1: The system and its components



- New focus on quality management, through a risk-based approach
- Evolved from a linear and soloed system, to a system that operated in an iterative and integrated manner
- Proactive approach, with a continual flow of remediation and improvement
- Tailored system, scalable to the nature and circumstances of the firm and the engagements it performs

# The Firm's Risk Assessment Process

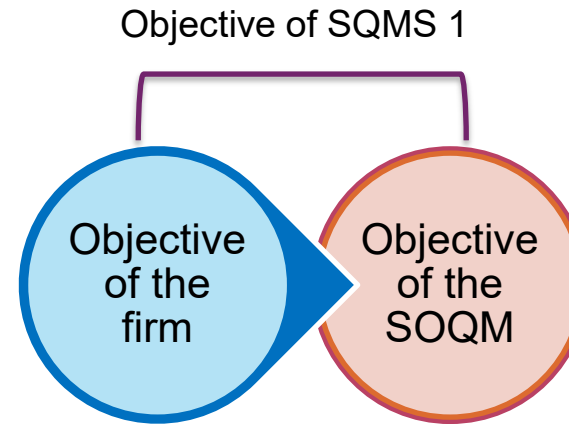
- Mechanism that enables the firm to
  - Focus on quality management and effectively manage quality
  - Customize and tailor the SQM to the nature and circumstances of the firm and engagements it performs
  - Be more proactive





# The Firm's Risk Assessment Process: Quality Objectives

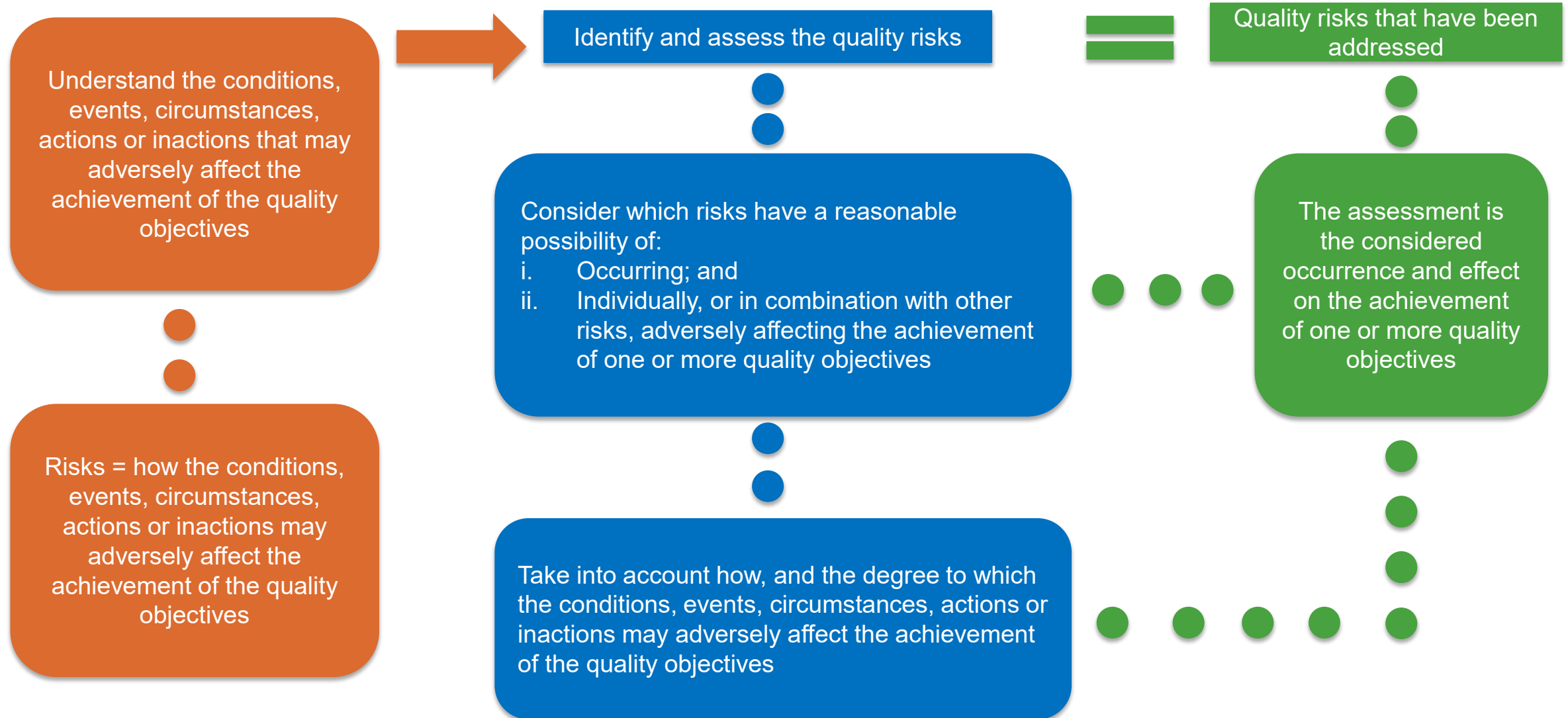
- Establish quality objectives:
  - Quality objectives specified in the components
  - Additional quality objectives needed to achieve the objectives of the SOQM
    - Based on firm judgement; unlikely to be needed
- Optional: Establish sub-objectives
  - May enhance identification and assessment of quality risks and designing responses
- Partially established quality objective is a deficiency, unless it is not relevant to the firm



## Quality objectives – components:

- Governance and leadership
- Relevant ethical requirements
- Acceptance and Continuance
- Engagement performance
- Resources
- Information and Communication

# The Firm's Risk Assessment Process: Quality Risks





# The Firm's Risk Assessment Process: Quality Risks

- Understand conditions, events, circumstances, actions or inactions
    - Take into account (i.e., think about) how they may adversely affect the achievement of the quality objectives
    - Identify whether there are risks that are quality risks
  - SQMS 1 specifies conditions, events, circumstances, actions or inactions
    - SQMS 1 is not complete (i.e., there may be others)
    - Not all are relevant to every quality objective
-

# The Firm's Risk Assessment Process: Responses

- Mitigate possibility of quality risk occurring, so quality objectives are achieved
- Design and implement responses to address quality risks
  - Based on, and responsive to, the reasons for the assessments given to the quality risks

How, and the degree to which, the conditions, events, circumstances actions or inactions affect the quality objectives

The possible occurrence of the quality risks

- Responses specified in SQMS 1: Not comprehensive and do not fully address all quality risks
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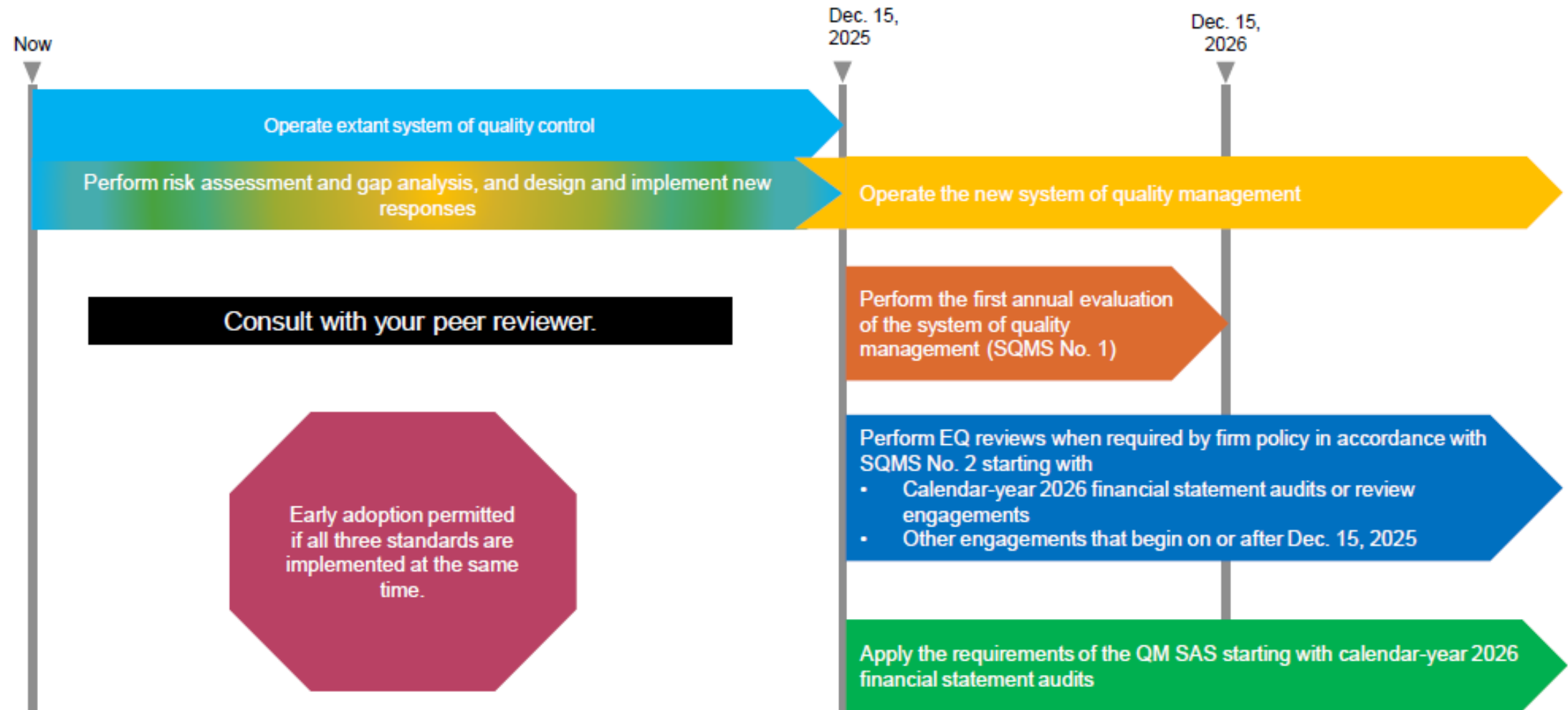
## The Firm's Risk Assessment Process: Additions and Modifications

- Proactive approach to quality management – respond to:
    - Changes in the nature and circumstances of the firm or its engagements
      - Required to have policies or procedures to identify information that indicates the need for changes to quality objectives, quality risks or responses
      - Information relates to changes in the nature and circumstances of the firm or its engagements
    - Remedial actions to address deficiencies
      - Monitoring and remediation process highlights deficiencies
-

## The Firm's Risk Assessment Process: How is it Scalable?

- Exercise professional judgement
  - Quality objectives outcome based
  - Quality risks tailored to the firm
  - Responses designed and implemented by the firm
    - Limited specified responses
-

# Understanding effective dates



# Important! Information on Effective Date

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

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

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

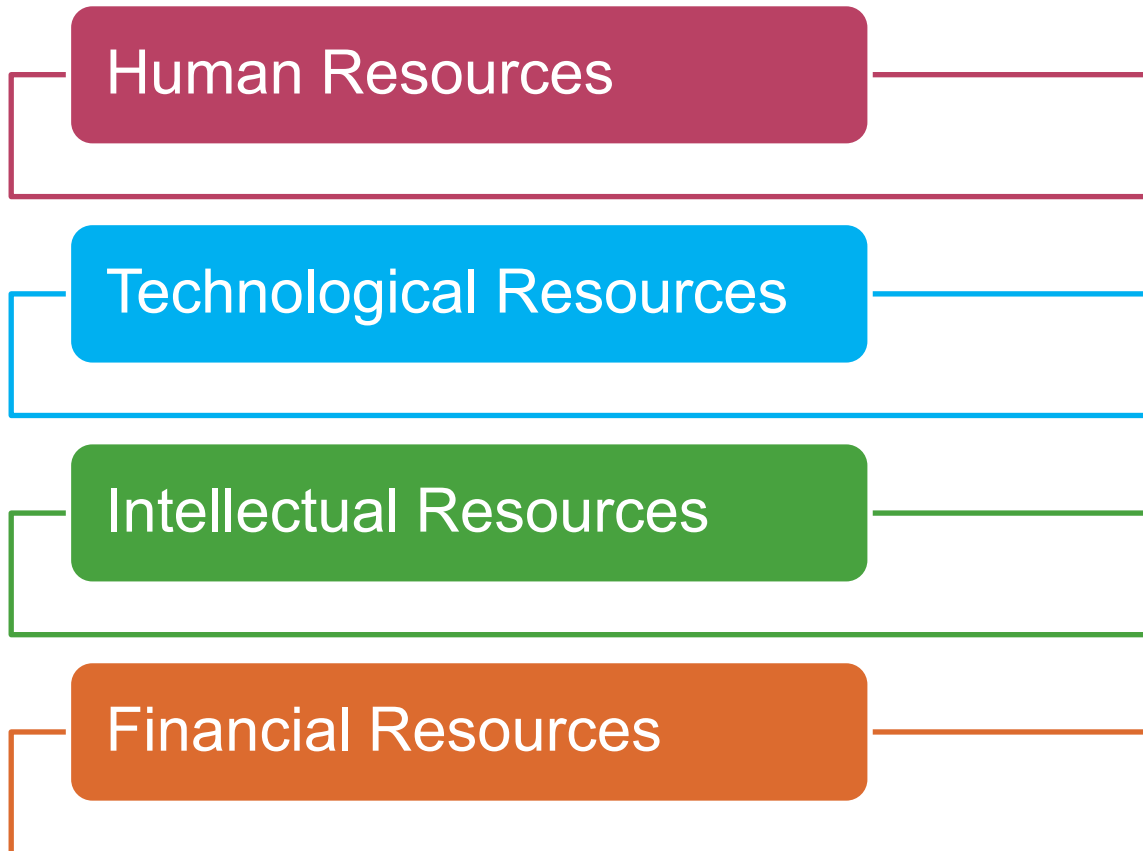






# New Quality Management Standards: Expectations for Firms and Engagement Partners

# Resources in SQMS 1



- Governance and leadership component:
- 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
  - Applies to all resources, including financial resources
- Resources component:
- Human, technological and intellectual resources

# Who is Considered a Human Resource?

## Individuals in the firm

- Personnel – partners and staff in the firm
  - Staff are professionals, including experts the firm employs
  - Includes partners and staff in other structures of the firm (e.g., a service delivery center in the firm)

## Individuals external to the firm

- Individuals external to the firm used in the SOQM or performance of engagements – i.e.:
  - Individuals from within the firm's network
  - Individuals employed by a service provider

# Engagement Team

## Extant quality control standards:

All partners and staff performing the engagement, and **any individuals engaged by the firm or a network firm who perform procedures on the engagement**. Excludes:

- An auditor's external expert engaged by the firm or by a network firm.
- Individuals within the client's internal audit function who provide direct assistance.

## New quality management standards:

All partners and staff performing the engagement, and **any other individuals who perform procedures on the engagement**, excluding an external expert and internal auditors who provide direct assistance on an engagement.

# Engagement Team

## Who is included in engagement team?

- Partners and staff performing the engagement – includes individuals from the firm's service delivery centers
- Others performing procedures – includes component auditors, other from the network, service providers
  - Includes individuals with expertise in accounting or auditing (i.e., they are not an auditor's expert)
  - Includes an auditor's internal expert (i.e., is a partner or staff of the firm or a network firm)

## Who is excluded from engagement team?

- Individuals providing consultation
- Engagement quality reviewer
- Auditor's external expert (i.e., *not* a partner or staff of the firm or a network firm)
- Individuals within the client's internal audit function who provide direct assistance.
- "Referred-to" auditor

# SQMS 1: How it Addresses Internal and External Human Resources

## SQMS 1: Requirements that address all individuals

- Requirements for engagement teams:
  - Engagement team responsibilities
  - Direction, supervision and review
  - Exercising professional judgment and skepticism
  - Differences of opinion
  - Assigning engagement team members
  - Exchanging information
  - Communicating matters related to monitoring and remediation
- Requirements for individuals performing activities within the SOQM
  - Assigning individuals to perform activities within the SOQM
  - Individuals performing monitoring activities
  - Communicating matters related to monitoring and remediation

## SQMS 1: Requirements that address only personnel

- Ultimate responsibility and accountability for the SOQM: Assigned to CEO/managing partner/managing board of partners
- The firm's culture: Responsibility of personnel for quality in performing engagements or activities within the SOQM, and their expected behavior
- Relevant ethical requirements
- Hiring, developing and retaining personnel
- Responsibility of personnel to exchange information
- Confirming compliance with independence requirements

## SQMS 1: Requirements that address only individuals external to the firm

- Relevant ethical requirements (only to extent that they apply)
- Obtaining individuals from external sources
- Service providers and networks, when it relates to a human resource

# Technological and Intellectual Resources

## Technological Resources

- Designing, implementing or operating SOQM
- Used by engagement teams to perform engagements
- Enable effective operation of IT applications

## Intellectual Resources

- E.g., methodology, guides, checklists, access to information sources

## What is the objective?

- Appropriate
- Obtained or developed
- Implemented
- Maintained
- Used
- Intellectual resources – consistent with professional standards and applicable legal and regulatory requirements



# New Quality Management Standards: What's New for Firms' Monitoring and Remediation Process



# Monitoring and Remediation: What has Changed?

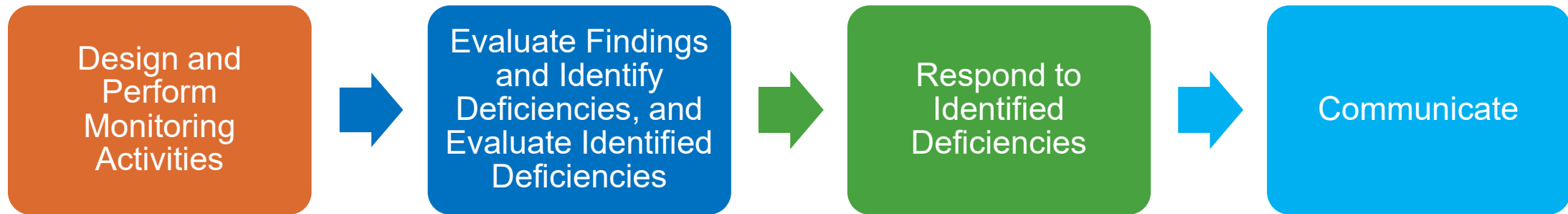
Modernized, promoting more proactivity and continual improvement

- Focus on monitoring the SQM as a whole
- New framework for evaluating findings and identifying deficiencies, and evaluating identified deficiencies
- More robust remediation

## Why?

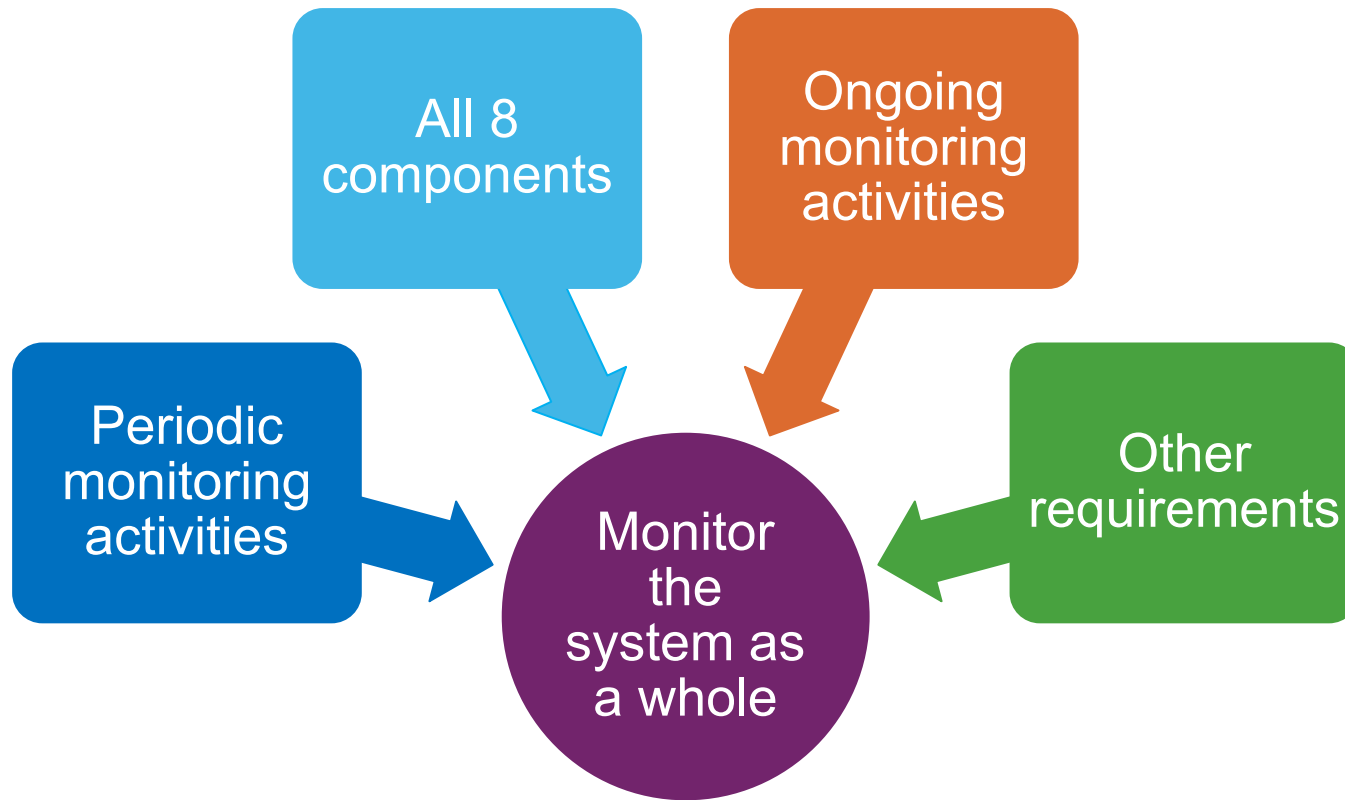
- Identify deficiencies so they can be remediated
  - Information is needed about the SQM – firm leadership, engagement partners and other in the firm (including engagement quality reviewers)
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# The Monitoring and Remediation Process



- Integrated and interactive process
- Operational responsibility for the monitoring and remediation process
- Policies or procedures for individuals performing monitoring activities
  - Competence and capabilities (including sufficient time)
  - Objectivity

# Design and Perform Monitoring Activities



# Design and Perform Monitoring Activities



## Examples of other factors:

- Size
- Structure
- Organization of firm
- Involvement of network
- Resources to be used

# Evaluate Findings and Identify Deficiencies and Evaluate Identified Deficiencies

## Findings

- Information about the design, implementation and operation of the system of quality management which indicates that one or more deficiencies may exist.
- Information comes from:
  - Monitoring activities
  - External inspections
  - Other relevant sources

## Evaluate findings to determine whether deficiencies exist

- Professional judgement
- Consider factors in paragraph A172, such as
  - The design of the response
  - The extent to which a quality risk is not addressed
  - The pervasiveness of the finding
  - Whether the finding indicate a systemic issue
  - The extent of the finding in relation to the expected deviation rate

## Deficiencies

- A quality objective required to achieve the objective of the SOQM is not established
- A quality risk or combination of quality risks, is not identified or properly assessed
- A response, or combination of responses, does not reduce to an acceptably low level the likelihood of a related quality risk occurring because the response(s) is not properly designed, implemented or operating effectively
- An other aspect of the SOQM is absent, not properly designed, or not operating effectively, such that a requirement of SQMS 1 has not been addressed

## Evaluate the severity and pervasiveness of deficiencies

- Professional judgement
- Investigate the root cause
- Evaluate the effect of deficiencies, individually and in aggregate, on the SQM

# Respond to Identified Deficiencies

## Design and implement remedial actions

- Responsive to root cause
- Also respond if findings on engagements indicate omitted procedures or an inappropriate report

## Evaluate remedial actions

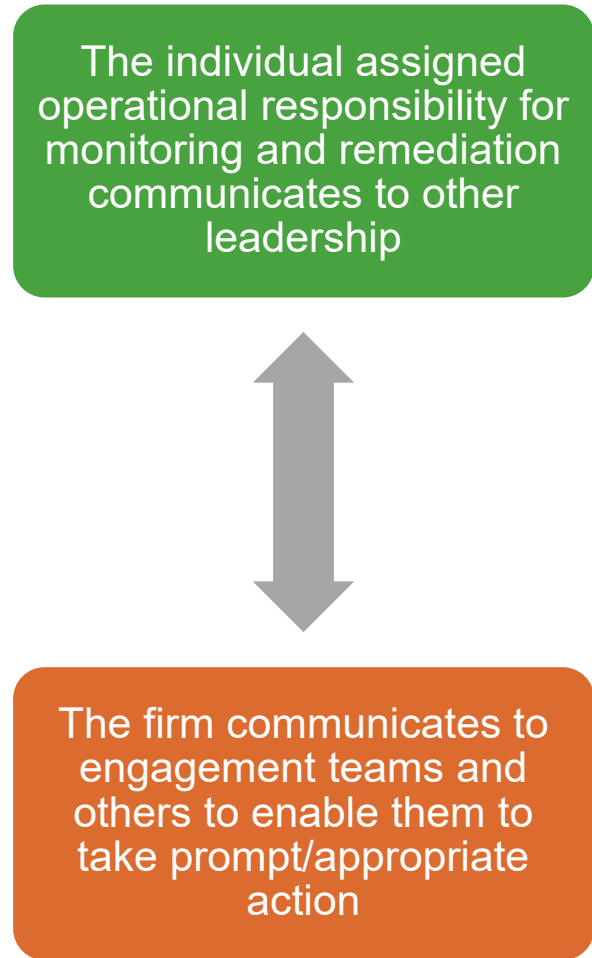
- Are the remedial actions appropriately designed to address the identified deficiencies and their related root cause(s) and have they been implemented?
- Are remedial actions that were implemented for previous deficiencies effective?

## Take appropriate action

- Remedial actions are not appropriately designed, not implemented, or not effective



# Communicate



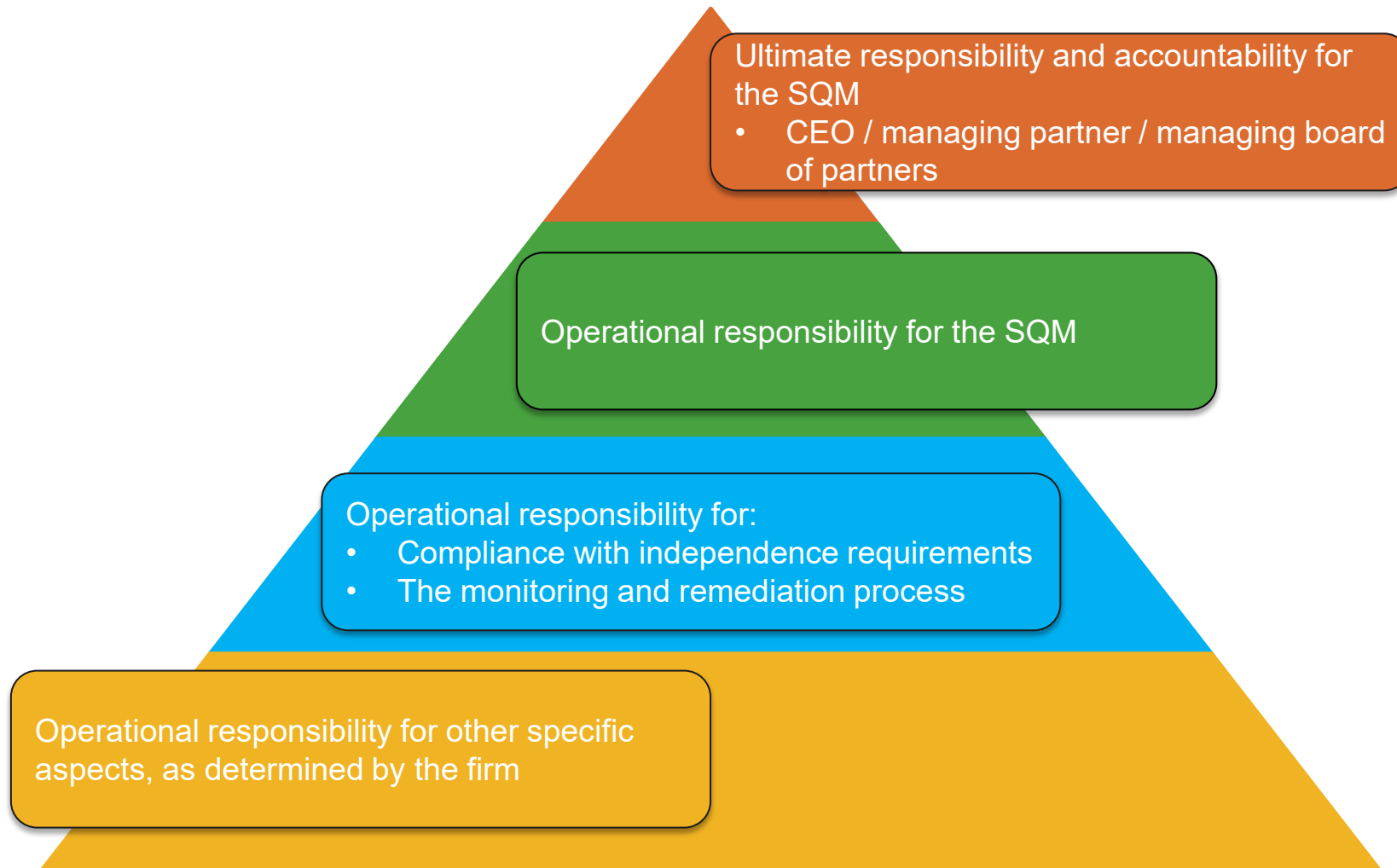


# New Quality Management Standards: Exploring all the Components of a Quality Management System





# Assigning Responsibilities



Appropriate experience,  
knowledge, time,  
influence and authority

# Governance and Leadership



- Firm's role in serving the public interest
- Professional ethics, values and attitudes
- Responsibility of all personnel
- Strategic decisions and actions

# Relevant Ethical Requirements

## The firm and its personnel

- Understand the relevant ethical requirements
- Fulfill their responsibilities

## Others:

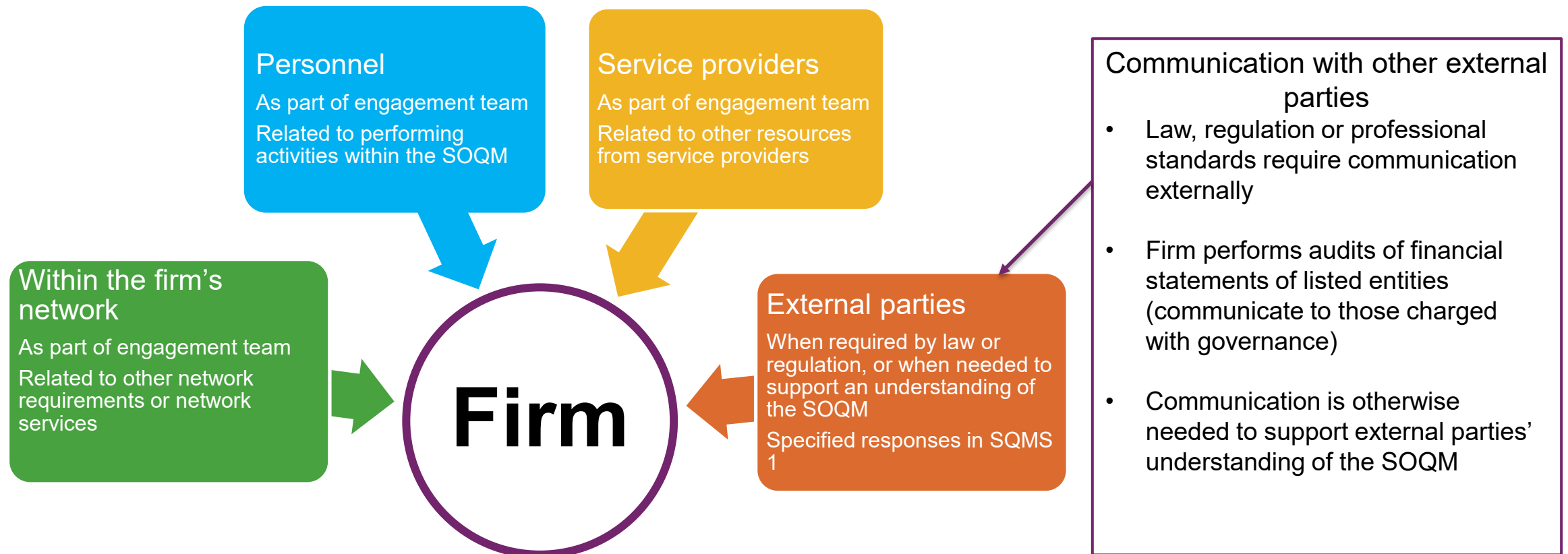
Includes the network, network firms, individuals in the network or network firms, or service providers

- Understand the relevant ethical requirements that apply to them
- Fulfill their responsibilities

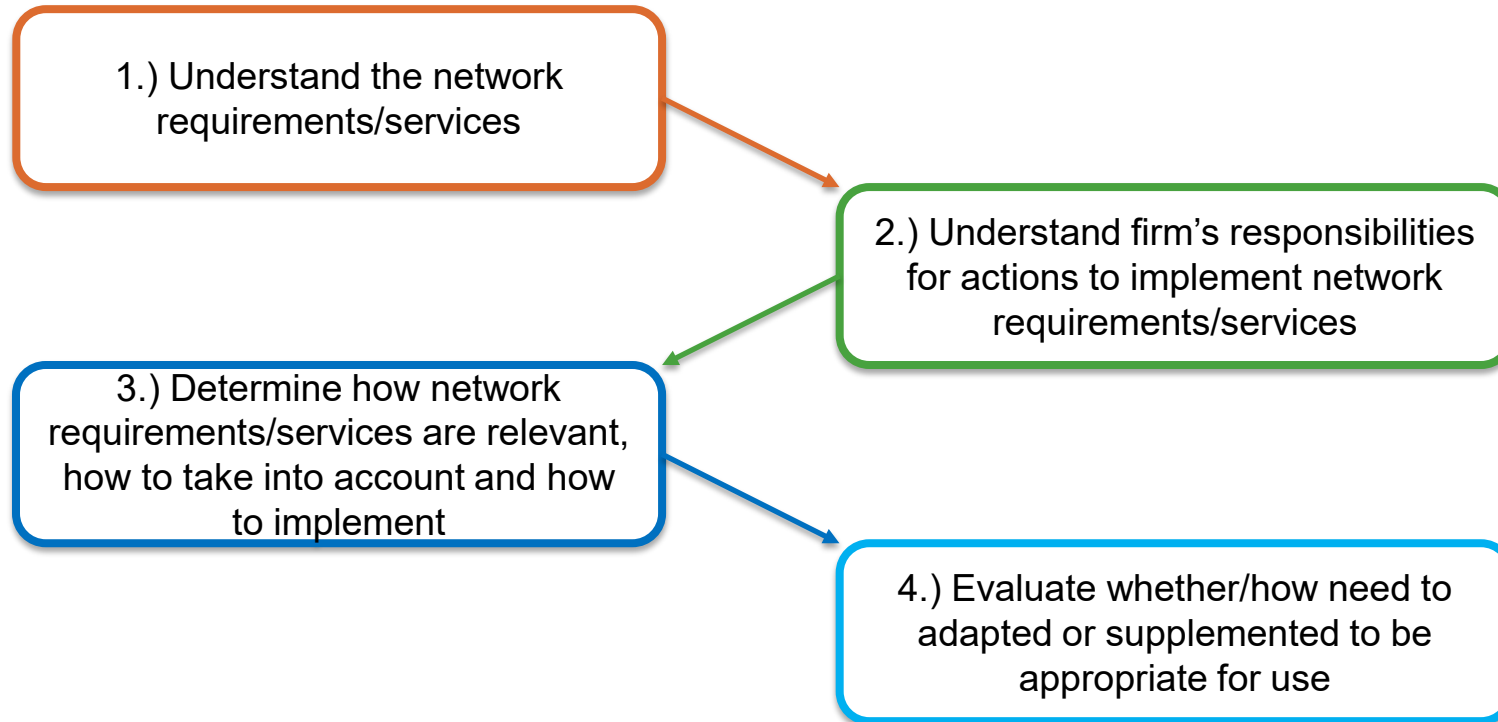
## Scope of relevant ethical requirements

Relevant ethical requirements to which the firm and the firm's engagements are subject

# Information and Communication



# Network Requirements or Network Services



## Other matters covered:

- Monitoring activities undertaken by the network on firm's SOQM
- Monitoring activities undertaken by the network across network firms
- Deficiencies in network requirements or network services

# Evaluating the SOQM

## Evaluate SOQM:

- At a point in time
- Perform **at least annually**

Based on evaluation, conclude 1, 2, or 3

**1)** SOQM provides reasonable assurance that objectives of SOQM are being achieved

**2)** Except for severe but not pervasive deficiencies, SOQM provides reasonable assurance that objectives of SOQM are being achieved

**3)** SOQM does not provide reasonable assurance that objectives of SOQM are being achieved

## Considerations:

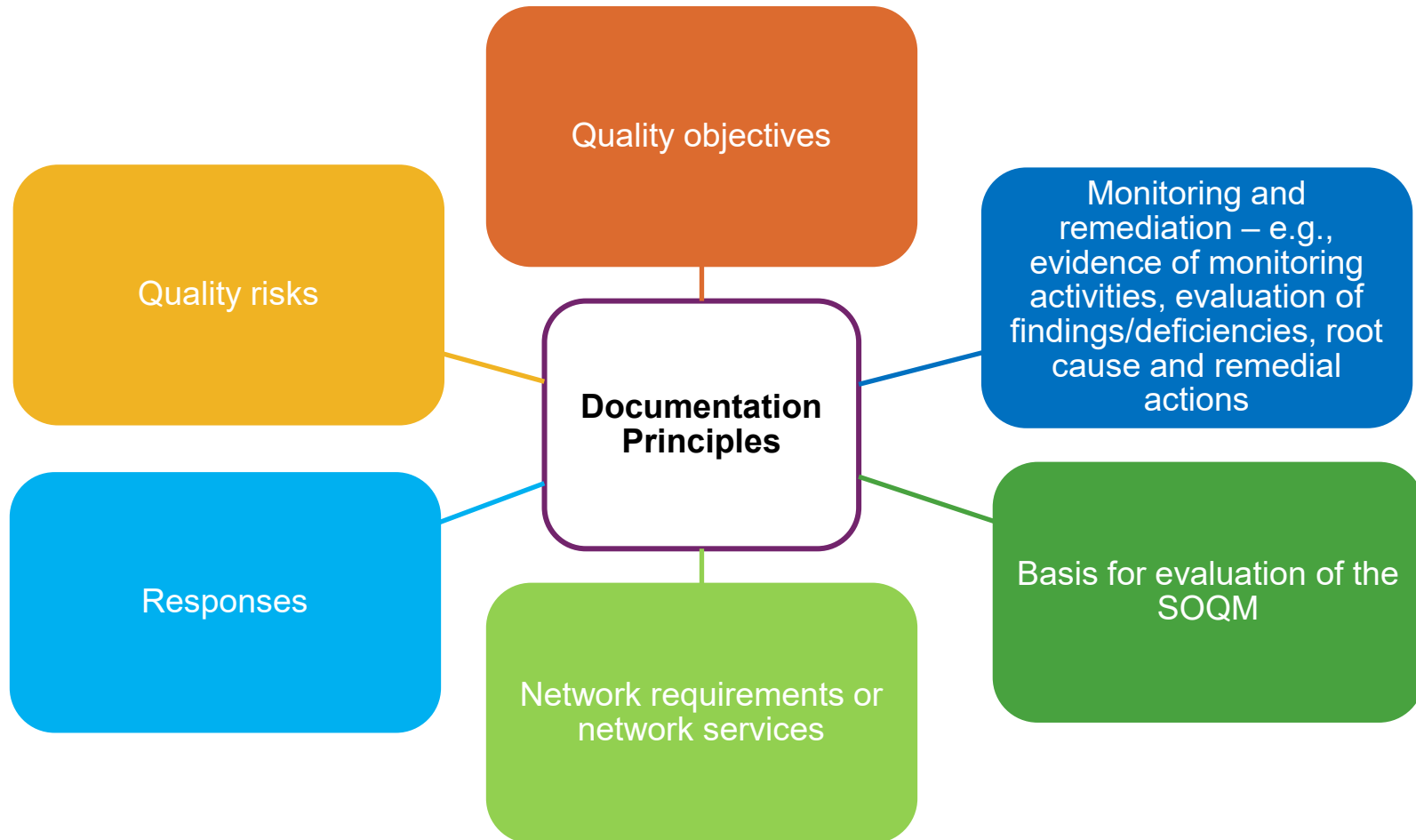
- Severity and pervasiveness of identified deficiencies, and effect on achievement of objectives of SOQM
- Whether remedial actions have been designed and implemented, and whether remedial actions taken up to time of evaluation are effective
- Whether effect of identified deficiencies have been appropriately corrected

# Documentation

Support consistent understanding of SOQM by personnel, including understanding of roles and responsibilities

Support consistent implementation and operation of responses

Provide evidence of design, implementation and operation of responses, to support evaluation of SOQM





# ANDERS ADOPTION JOURNEY

## Committee / Team Approach

Director of QC, Partner-in-Charge of Audit and Assurance, 2 Partners who are also peer reviewers, 1 additional Principal-level member of management team

## Define Timetable for Implementation:

- Peer Review cycle consideration
- Consideration of annual assessment/evaluation (QM1)
- We agreed to an early adoption of 10/1/2024. However, some practice elements are being updated/implemented sooner.





## ANDERS ADOPTION JOURNEY – SO FAR

- Monthly/Quarterly meetings to read aspects of the standards
- Performed initial Risk Assessment of the existing practice
- Utilized PPC and AICPA tools in identifying and assessing risk, and drafting responses
- Compared to existing QCD and Policy and Procedures Manual (for staff usage)
- Already updating EQR Policy (to “go live” for audits fye 12/31/2023)
- Already updating procedures for A&A project acceptance and continuance



## ANDERS ADOPTION JOURNEY – NEXT STEPS

- Further refinements to risk assessment
- Better understanding of the new Information and Communications component
- Full-scale re-write of QCD and/or Policy and Procedures manual? Or, does the risk assessment replace the QCD?
- Education and training session for all audit + assurance department staff