



# Quality Management Standards

An Overview and Implementation Strategies

Kansas Society of CPAs

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## Overview of SQMS No. 1

- Establishing a QM System

## Operating your QM System After Implementation

- Engagement Level QM Standards
- Monitoring, Remediation and Evaluation
- Engagement Quality Review

# Statements on Quality Management Standards

- Statement on **Quality Management Standards (SQMS) 1, A Firm's System of Quality Management**
- SQMS 2, *Engagement Quality Reviews* (New!)
- SAS No. 146, *Quality Management for Engagements Performed in Accordance with Generally Accepted Auditing Standards*
- Related conforming amendments (SSAE No. 23, SSARS No. 26)

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

**SQMS 1**  
**(supersedes SQCS 8)**

**SQMS 2 (new,**

**AU-C 220**  
**(Revised)**

**Conforming amendments: SSAE No. 23, SSARS No. 26**

# Overall Objective of the Quality Management Standards

- 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.

# SQMS 1: The System and Its Components

QC Sec. 10 (6 elements)	SQMS 1 (8 components)
No equivalent	Firm risk assessment process
Leadership responsibilities for quality within the firm	Governance and leadership
Relevant ethical requirements	Relevant ethical requirements
Acceptance and continuance of client relationships and specific engagements	Acceptance and continuance of client relationships and specific engagements
Engagement performance	Engagement performance
Human resources	Resources
No equivalent	Information and communication
Monitoring	The monitoring and remediation process





# Key SQMS 1 changes

Key aspects that clarify and improve existing SQSC include:

1. New **risk-based approach** focused on **quality management**
2. **Revised components** of the system of quality management
3. **New risk assessment process**
4. **More robust** leadership and governance requirements
5. **Enhanced** monitoring and remediation process
6. **New requirements** for networks and service providers



# SQMS No. 1: Governance and leadership and overall responsibility for the system

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



Formerly  
Leadership  
Responsibilities  
for quality within  
the firm

# Leadership Responsibilities Under SQMS 1



The managing partner has ultimate responsibility and accountability for the firm's system of quality management.



The managing partner is required to evaluate and conclude about whether the firm's system of quality management provides the firm with reasonable assurance that the objectives of the system are being achieved.



The managing partner can obtain information from others in the firm to assist with these responsibilities.

# SQMS No. 1: Resources

- Human, technological and intellectual resources used in the system and in performing engagements
  - Appropriateness of resources (including financial)
  - Obtain or develop, implement, maintain, and use resources
    - Includes obtaining external individuals if needed
  - Accountability of personnel and their commitment to quality
- External service providers used in the system or in performing engagements
  - Component auditors from outside the firm's network
  - Determine that the resources from the service provider are appropriate for use



Formerly just focused  
on Human Resources



# SQMS No. 1: Information and communication (NEW!)

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



# SQMS No. 1: Monitoring and remediation

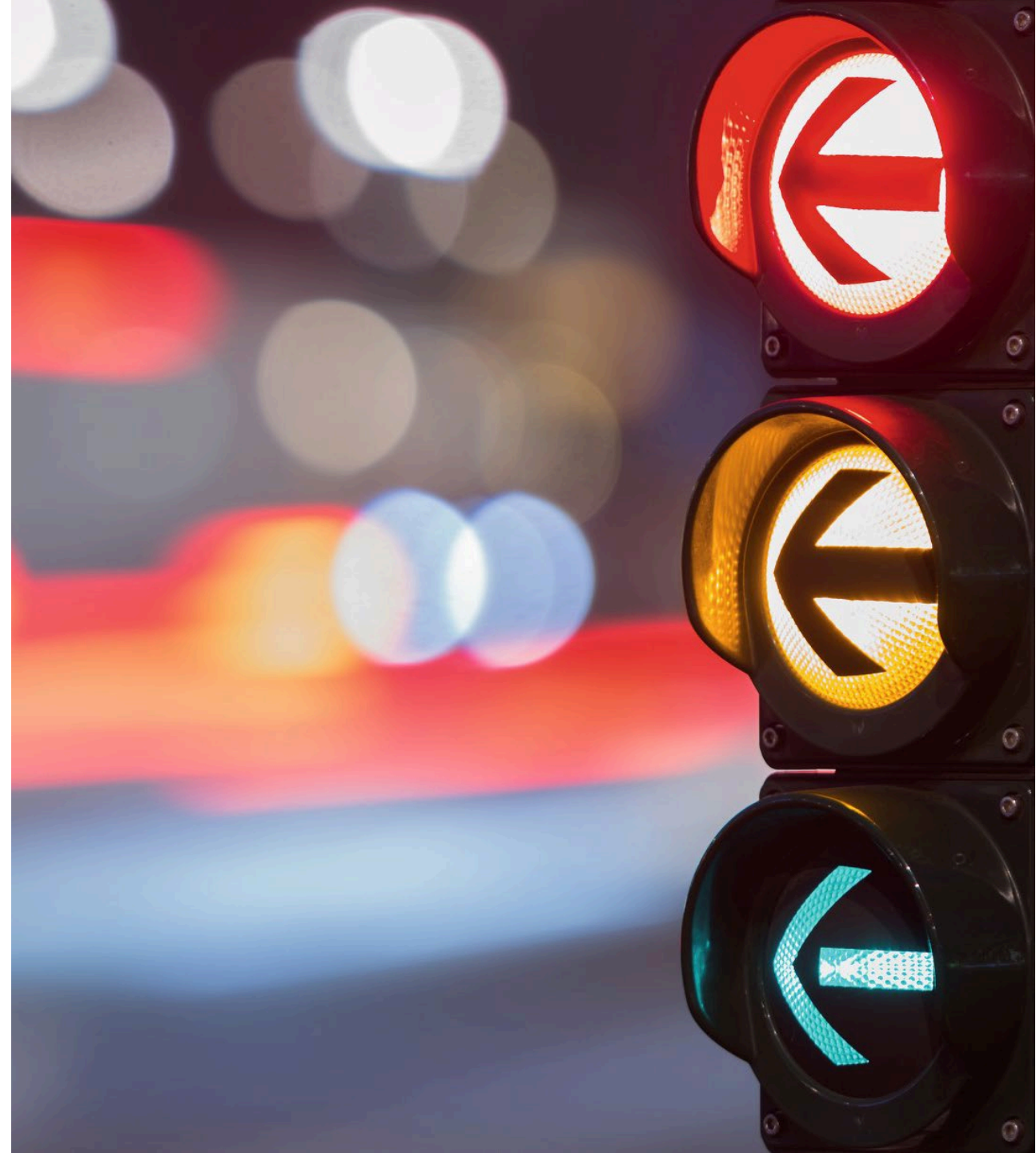
- Monitor the ***whole*** system
- Tailor monitoring activities
  - Depends on many factors, e.g., design of system, circumstances of the firm, changes in the system, information known about the system
- Inspect completed engagements
  - Increased focus on appropriate selection taking into consideration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





# SQMS No. 1: Monitoring and remediation (continued)

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





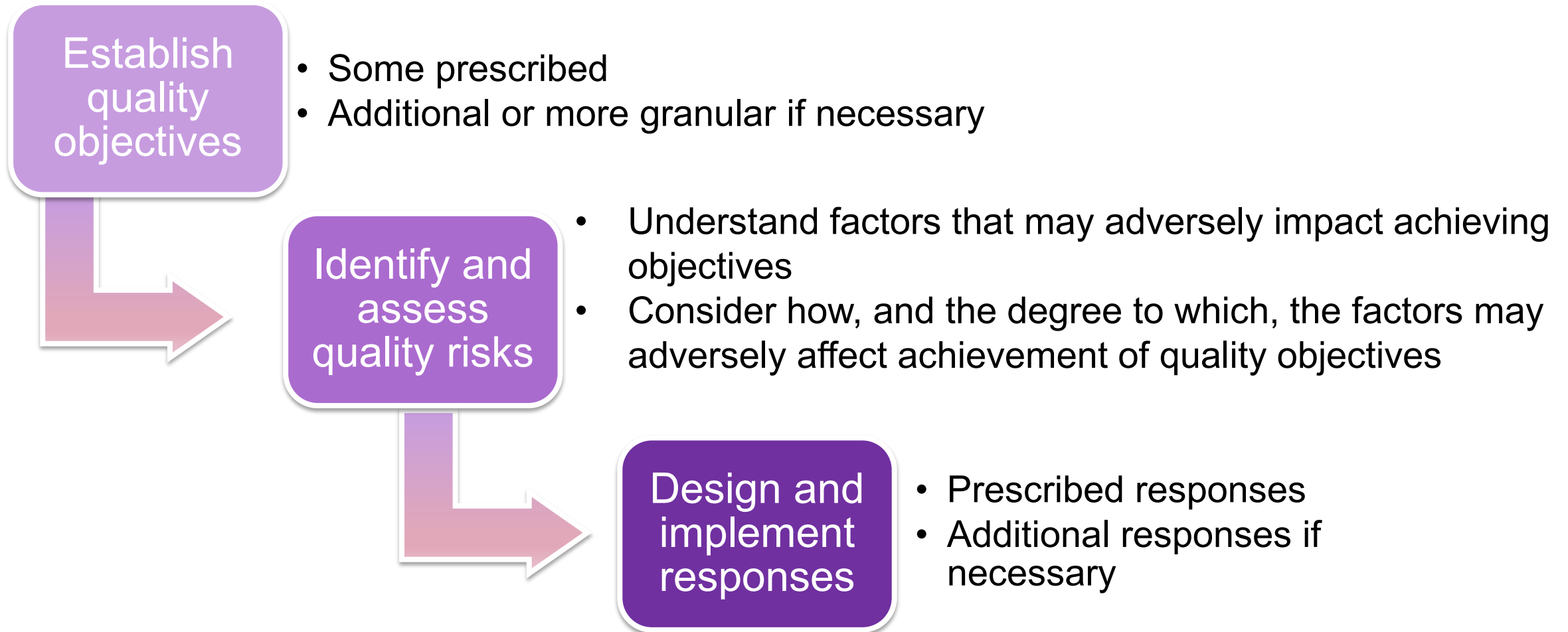
# SQMS No. 1: Other aspects

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





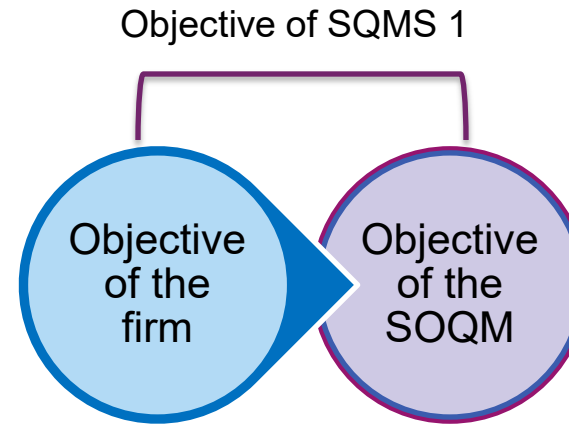
# SQMS 1: Risk assessment process



# 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

# Key Point

- The QM system is scalable to any firm size and complexity.
- A firm does not have to start from scratch. Consider using the firm's existing quality control documents as a starting point.
- The firm's quality management system will require constant updates and is not a “static policy” document.

# Risk assessment process: Identify and assess quality risks

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 firm is a smaller firm with a few engagement partners with shared authority.	<p>Governance and leadership component, potential risks:</p> <ul style="list-style-type: none"> <li>• Leadership's responsibilities and accountability for quality are not clearly defined and assigned.</li> <li>• The actions and behaviors of leadership do not promote quality are not questioned.</li> </ul>
The firm has recently completed a merger with another firm.	<p>Resources component, potential risks:</p> <ul style="list-style-type: none"> <li>• Technological resources used by the two merged firms may be incompatible.</li> <li>• Engagement teams may use intellectual resources developed prior to the merger, which are no longer consistent with the new methodology.</li> </ul>

- Understand the nature and circumstances of the firm relating to
- Complexity
  - Strategic and operational decisions
  - Leadership management style
  - Resources
  - Laws and regulations

## How to design the firm's risk assessment

- Brainstorming
- Left to right or right to left? (Risk to response or response to risk)
- Gap analysis
- What risk does this response address?
- Do we have responses that are no longer necessary?

## Component by component OR Step-by-step

### Advantages

- Easier to piecemeal
- Easier to perform a gap analysis

### Disadvantages

- Risks and responses may be relevant to more than one component

### Advantages

- Easier to see complimentary quality risks and responses between components

### Disadvantages

- Harder to develop over time

## Performing Engagements after Implementation of QM

- Engagement Level Standards
- Engagement Quality Review
- Monitoring and Remediation
- Annual Evaluation of System

# Relationship between SQMS 1 and SQMS 2

## SQMS 1:



Establish  
quality  
objectives



Identify  
and  
assess  
quality  
risks



Design and  
implement  
responses

Specified responses to risks  
identified include EQ reviews:

- Required by law/regulation
- Engagements firm determines that EQ review is an appropriate response to address one or more quality risk(s)

EQ review  
incorporated  
as a risk  
response?

## SQMS 2:

No



SQMS 2 does not  
apply

Yes



SQMS 2 applies,  
including:

- Appointment and eligibility of EQ reviewer (“cooling-off”)
- Performance and dating of EQ review
- Documentation of EQ review



## SQMS 2: An overview

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

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

Modernizing  
for an  
evolving  
environment



Evolving use of varying audit delivery models



Engagement team may be located together or across different geographic regions



Revised definition of **engagement team** that includes partner, staff and **any other individuals** who perform audit procedures on the engagement, including those engaged by a network firm



Requirements have been enhanced to recognize the use of technological resources in the audit

# Other quality management related standards

## *SSARS No. 26, Quality Management for an Engagement Conducted in Accordance With Statements on Standards for Accounting and Review Services*

- Amendments for consistency with the SQMSs
- Technical revision to AR-C section 90 to align timing of obtaining the engagement letter with other AR-C sections, GAAS and SSAEs

## *SSAE No. 23, Amendments to the Attestation Standards for Consistency With the Issuance of AICPA Standards on Quality Management*

- Amendments for consistency with the SQMSs
- Replaces the defined term "other practitioner" with two new terms — "participating practitioner" and "referred-to practitioner" to differentiate the requirements related to other practitioners who are part of the engagement team (participating practitioners) and those who are not part of the engagement team (referred-to practitioners).

## SAS No. 146, SSARS No. 26, and SSAE No. 23

These three standards are the “engagement level QM standards” and are designed to leverage the firm’s system of quality management, and address how quality is managed at the engagement level.

## Performing Engagements after QM Implementation

The objectives of the quality management system are to provide the firm with reasonable assurance that the firm and its personnel fulfill their responsibilities in accordance with professional standards and legal and regulatory requirements ***so that engagements are conducted in accordance with these standards and requirements and engagement reports issued by the firm are appropriate.***

# Performing Engagements

Achieving these objectives requires that each of the firm's engagement teams, ***led by an engagement partner***, implement the firm's responses to quality risks as they are applicable to each engagement. In other words, the ***applicable aspects of the firm's overall QM system must be implemented on each and every engagement.***

# Engagement Partner Responsibilities

- Leadership for the overall responsibility for managing and achieving quality, including being sufficiently and appropriately involved throughout the engagement.
- The performance of procedures and tasks can be assigned to other members of the engagement team, however overall responsibility for managing and achieving quality cannot be delegated.

# The engagement partner's overall responsibility

## Sufficient and appropriate involvement throughout the engagement

### Leadership responsibility

EP is responsible for achieving quality at the engagement level

### Stand back

EP should be satisfied that involvement is sufficient and appropriate to provide basis for taking overall responsibility

### Direction, supervision, and review

EP is responsible for nature, timing, and extent in view of engagement circumstances



# Engagement Partner Responsibilities

## Relevant Ethical Requirements

- The engagement partner should understand the ethical requirements, including independence, that ***relate to the engagement***, and assure that other members of the engagement team are aware of them.

# Engagement Partner Responsibilities

## Resources

- The engagement partner is responsible for determining that ***sufficient and appropriate resources*** to perform the engagement are assigned and available to the engagement team in a timely manner. They should determine that members of the engagement team collectively have the appropriate ***competence and capabilities, including sufficient time***, to perform the engagement.

# Engagement Partner Responsibilities

## Engagement Performance

- Direction and supervision of engagement team
- Planning the engagement
- Review engagement reports and documentation
- Before signing report, determine that engagement objectives are met.

# Engagement Partner Responsibilities

## Monitoring and Remediation

- Understand information from firm's monitoring and remediation process and determine relevance to the engagement.

# Engagement Partner Responsibilities

## Engagement Quality Review

- If engagement qualifies for EQR, cooperate with the reviewer, discuss all significant matters and judgements, and NOT issue the report until the Engagement Quality Reviewer has completed their review.

# Monitoring the QM System



Establish process for ongoing monitoring & remediation



- Factors you are required to consider when establishing monitoring activities:
  - The reasons for the assessments given to the quality risks
  - The design of the responses
  - The design of the firm's risk assessment process and monitoring and remediation process
  - Changes in the SQM
  - Previous monitoring activity

System for monitoring needs to be in place for design and implementation

# Monitoring and Evaluation



## Evaluate new system

- A new requirement in SQMS No. 1 is for managing partner to evaluate, at least annually, whether the SQM provides reasonable assurance that the objectives of the SQM are being met.
- The effective date for this evaluation is within one year of December 15, 2025.
- Firm leadership is required to make this evaluation even in a peer review year.
- It is comparable to management's assertion about its system of internal control over financial reporting (ICFR), which remains management's responsibility regardless of whether an audit of an entity's system of ICFR is performed.

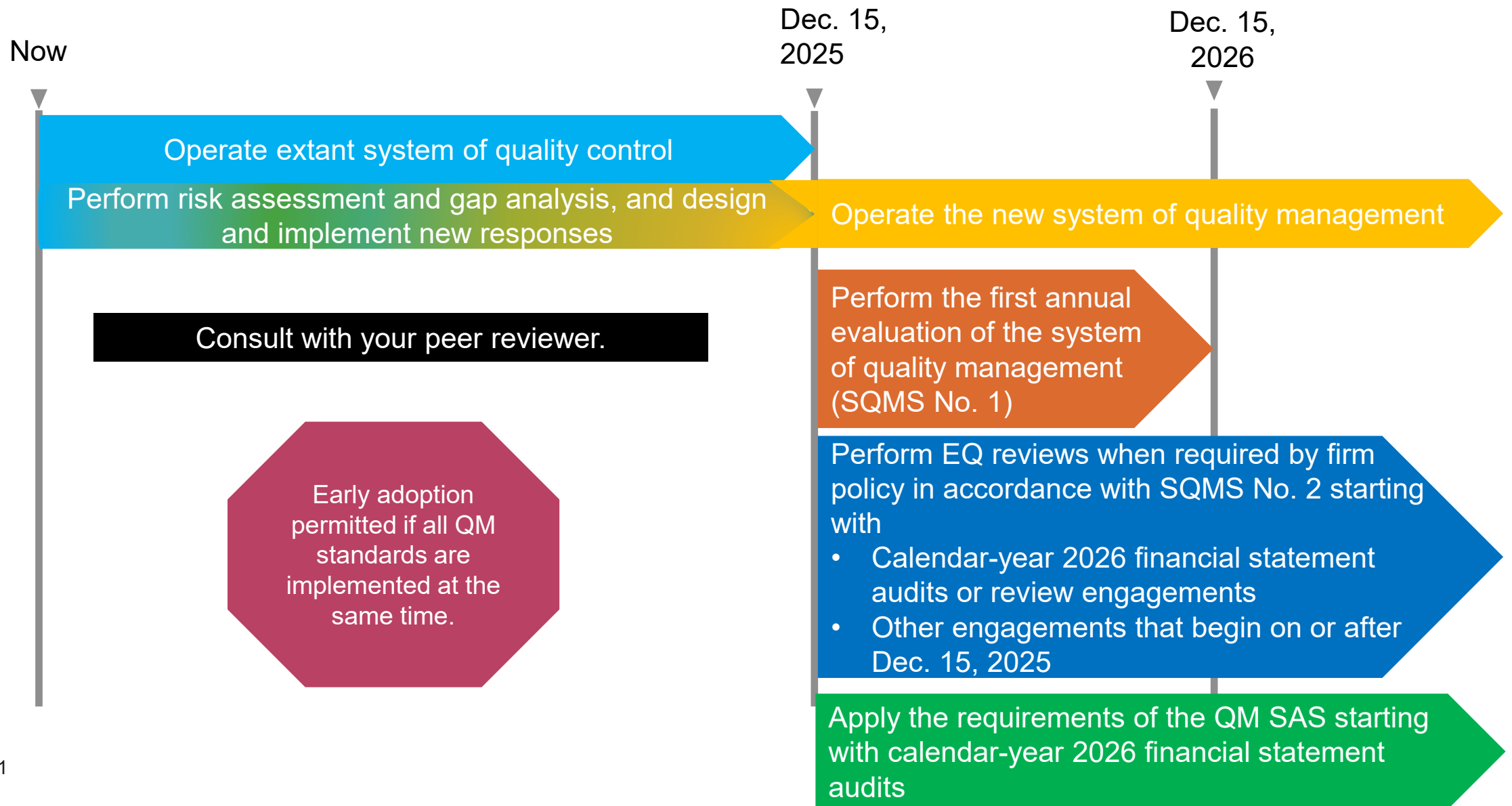


## Documentation

- Not required to document every single consideration
- May be helpful to include reasons for conclusions about risk
- Documentation will differ based on firm's complexity
  - For a less complex firm, documentation may include lists of the quality objectives and quality risks, and a memorandum that explains the responses and how they address the quality risks.
  - As the complexity of the firm's SQM increases, there may be a need to have more granular documentation that indicates the quality objective, the related quality risk(s), and the related responses to address those quality risks



# 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.**

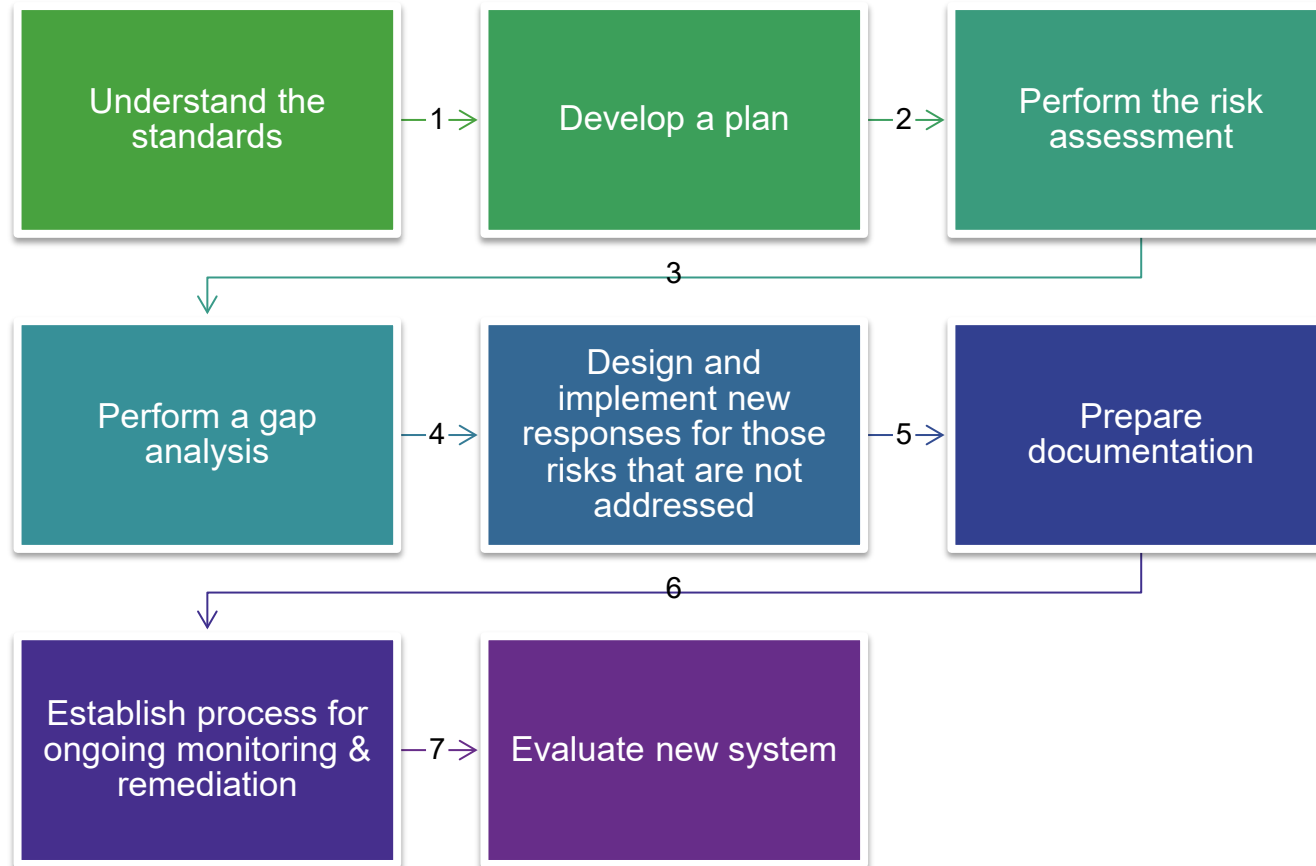
- *If you have not started, need to start now,*
- *Do it right the first time,*
- *Get it done on time*



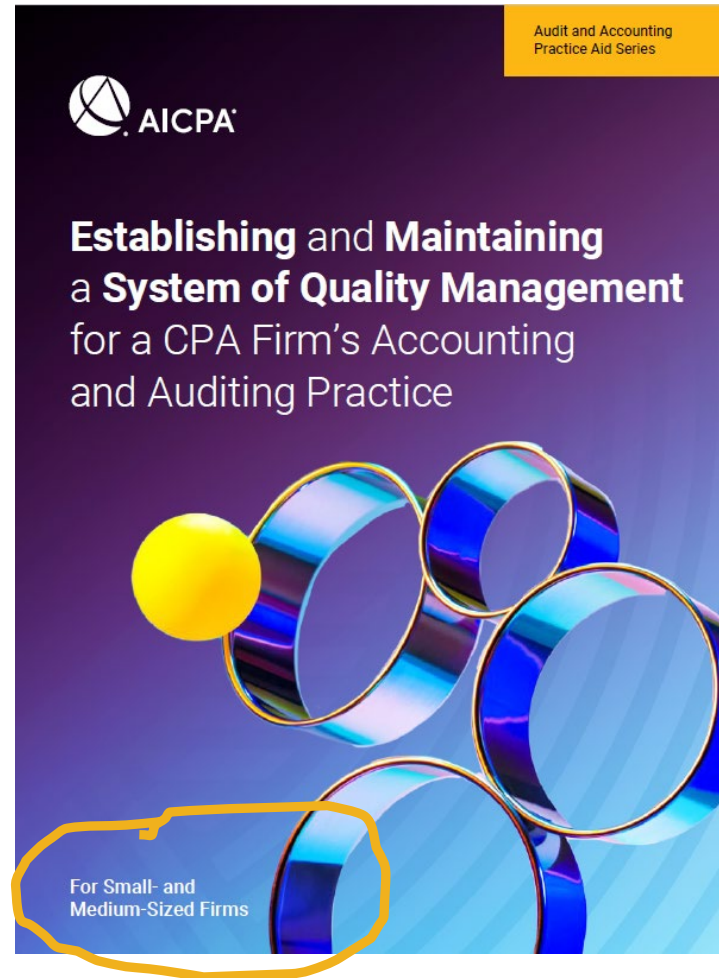
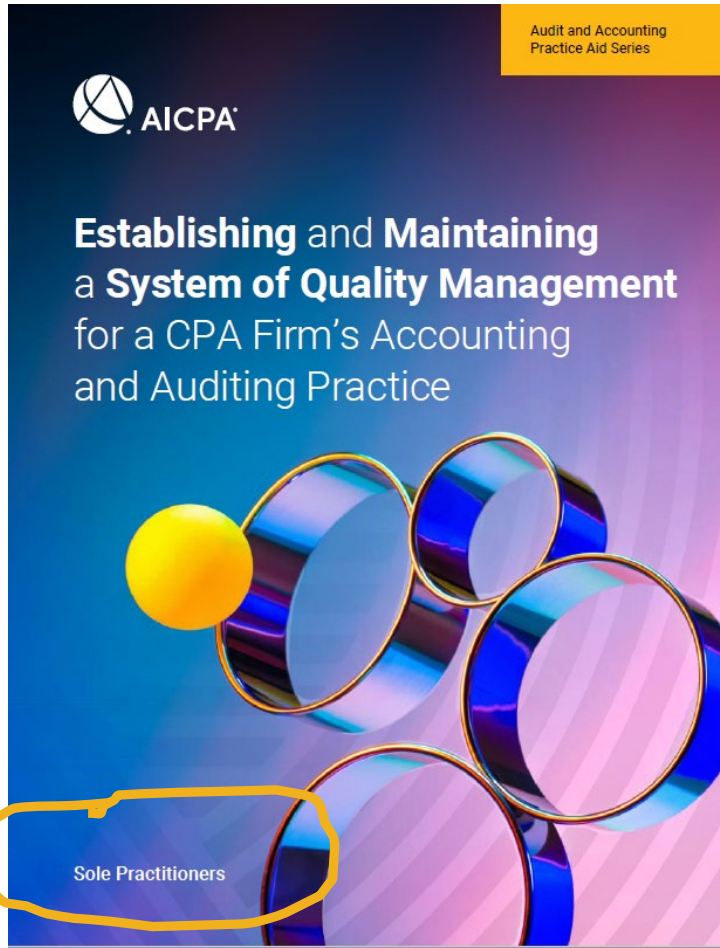
## Firm implementation checklist

- ☐ Gain an overall understanding of the QM standards
- ☐ Develop an implementation plan
- ☐ Gain an understanding of the risk assessment process
- ☐ Perform the risk assessment
- ☐ Don't miss a quality risk
- ☐ Perform a gap analysis
- ☐ Design and implement new responses for those risks that are not addressed
- ☐ Prepare documentation
- ☐ Establish a process for ongoing monitoring (adjusting for changes) and remediation

# How to get there from here



# Quality Management Practice Aid

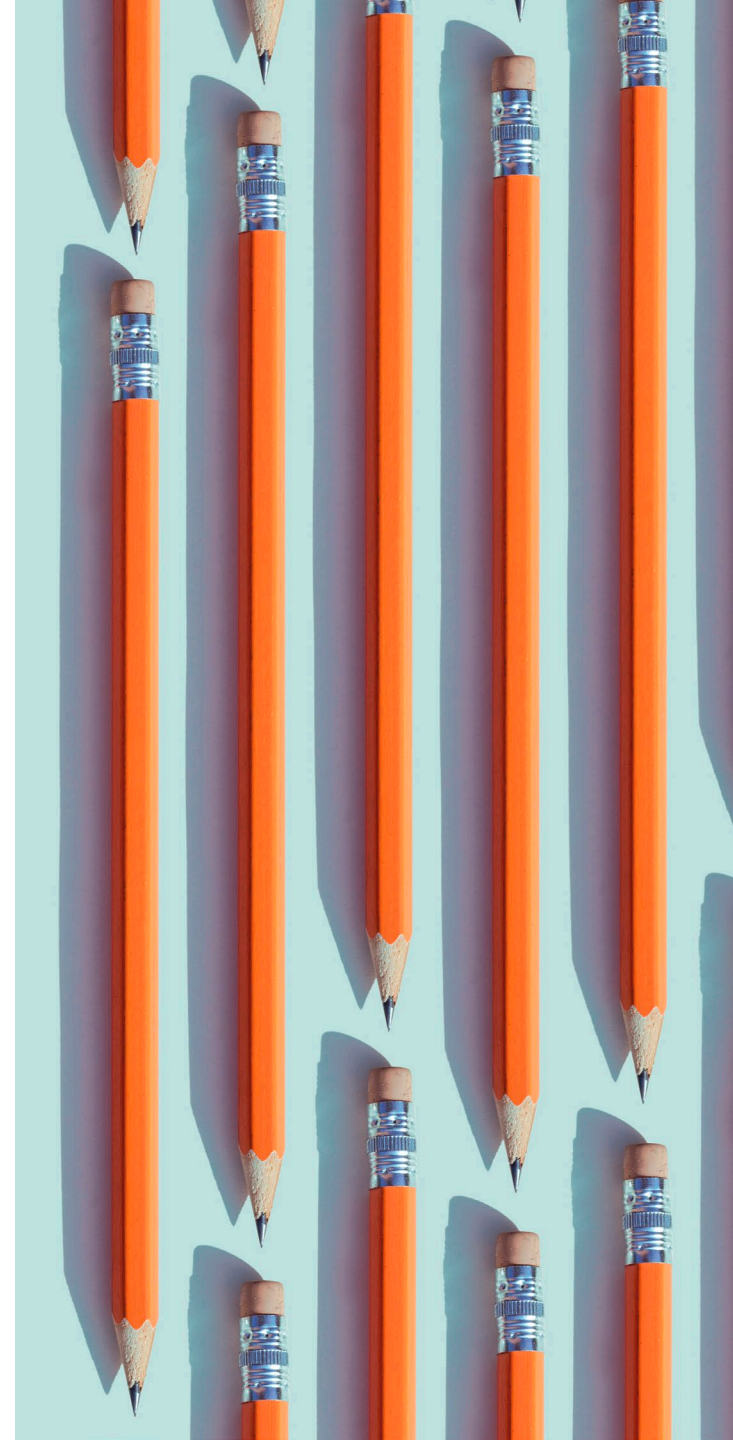


- QM Practice aid is available in two versions:
  - Sole practitioners
  - Small- and medium-sized firms
- Each version contains:
  - How to use this practice aid
  - Overview of SQMS No. 1
  - Overview of risk assessment requirements
  - Library of quality objectives, potential risks, and potential responses
  - Monitoring and remediation process
- Works in tandem with the Example QM Risk Assessment template, which provides a starting point

# QM implementation practice aid

## Chapter 3 – library of potential quality risks and responses

- Quality risks and responses
  - Not an all-inclusive list
  - Should be tailored to fit your firm
  - Organized by most relatable component and objective
  - Could address multiple risks and responses
  - Could address multiple components



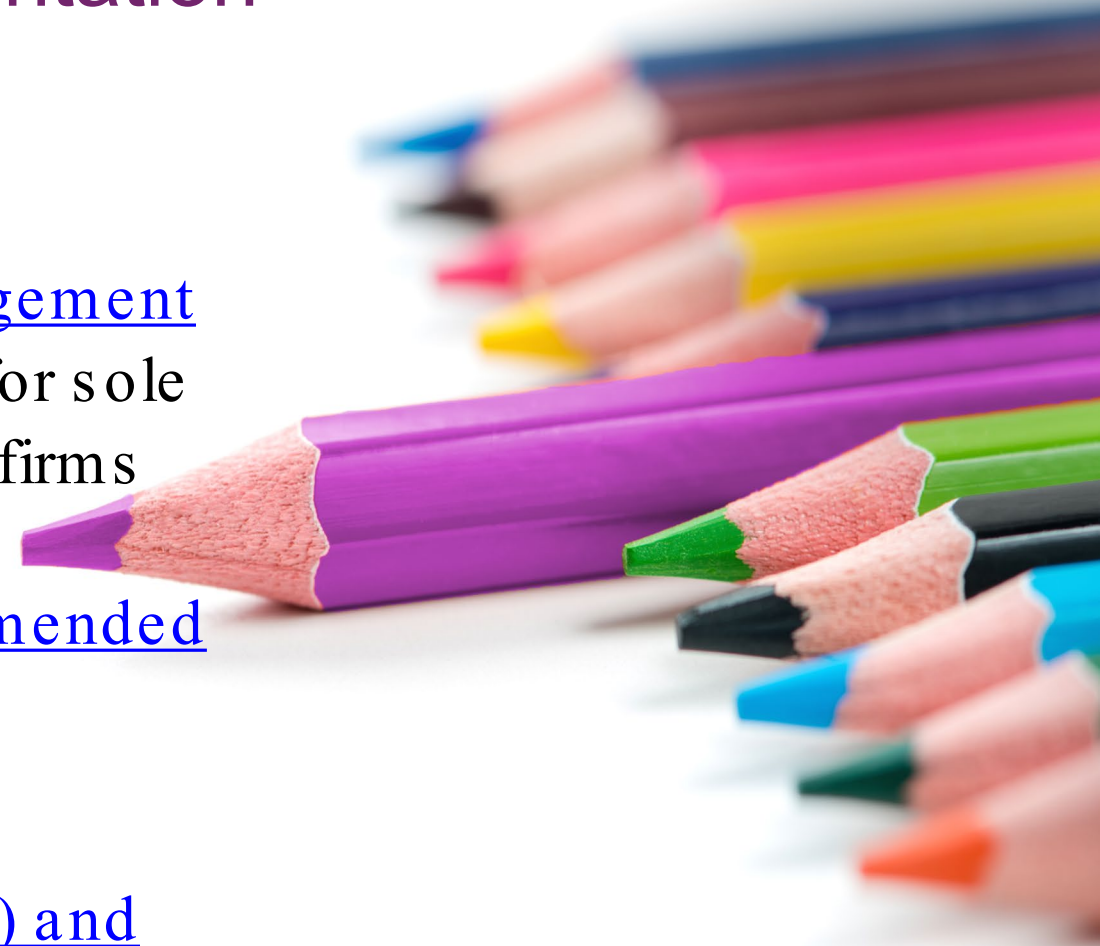


# Resources to Support QM Implementation

- Quality Management Practice Aid


[Practice aid: Set up your A&A quality management system](#) (AICPA member access) Versions for sole practitioners and small- and medium-sized firms

- [Mapping SQMS No. 1 and SQCS No. 8, as amended](#)
- [Firm checklist for establishing your quality management system](#)
- [3 webinar series \(basic, workshop and Q&A\) and self-study course](#): [aicpa-cima.com/qmlearning](http://aicpa-cima.com/qmlearning)



# Quality Management Resources

[aicpa-cima.com/auditqm](https://aicpa-cima.com/auditqm)





RESOURCES

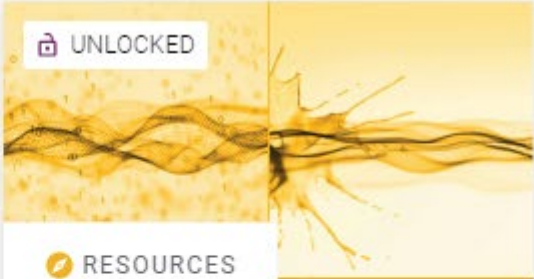
ASB project: quality management

May 25, 2022

AICPA



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RESOURCES


Crosswalk between SQMS No. 1 and SQCS No. 8, as amended

Jun 01, 2022

560.8 KB



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RESOURCES


Executive summary of SQMS Nos. 1 – 2 and SAS No. 146

Jun 01, 2022

547 KB



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RESOURCES

SQMS Nos. 1 – 2, SAS No. 146, and SSARS No. 26 At a Glance

Jun 01, 2022

173.3 KB





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