

# Quality Management Standards

Timeline and Actions- 2024 and Beyond

Michael Manspeaker, CPA CGMA  
CPA on Staff, Coastal Peer Review, Inc.



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# Michael Manspeaker, CPA CGMA

**Michael P. Manspeaker**, CPA, CGMA, is a member of the AICPA Auditing Standards Board and the CPA on Staff for Coastal Peer Review, which administers reviews for NC and MD firms. He is a former audit and assurance services partner with SEK CPAs & Advisors, where he continues to consult and work with selected clients.

He is a former member of the AICPA Accounting and Review Services Committee and Technical Issues Committee. Mike is also a member of the AICPA Audits of Less Complex Entities (LCE) Task Force, the AICPA Attestation Standards Task Force and the Audit Issues Task Force. He is a past Chair of the Maryland Association of Certified Public Accountants and the Maryland Peer Review Committee.

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# Setting the Stage – Overall Objective of QM Standards

- Establish the quality related requirements for firm accounting and auditing practices
- Enable the AICPA to communicate objectives and expectations regarding quality
- Adherence is:
  - Required through adherence to the Code of Professional Conduct
  - Evaluated through peer review, firm monitoring and evaluation, and the performance of engagement quality reviews (as applicable)
- The stated objective in the new QM standards explains (consistent with QC standards):
  - Design, implement, and operate a system of quality management for engagements performed by the firm in its A&A 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.

# 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**

# 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 1: The System and Its Components

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



# 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

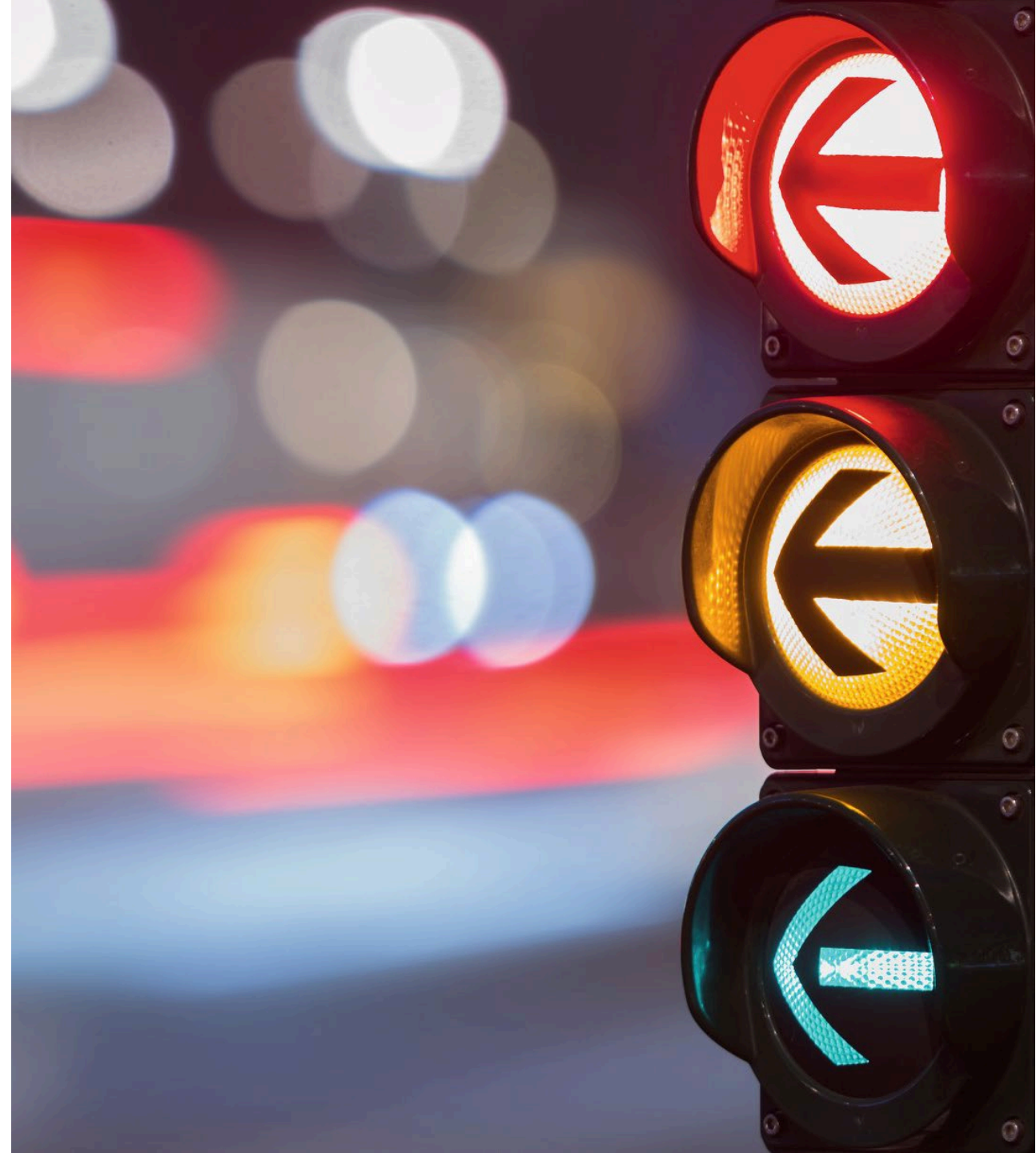
- Monitor the ***whole*** system
- Tailor monitoring activities
  - Depends on many factors, e.g., design of system, circumstances of the firm, changes in the system, information known about the system
- Inspect completed engagements
  - Increased focus on appropriate selection taking into consideration 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: The firm responsibilities when it uses the network

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



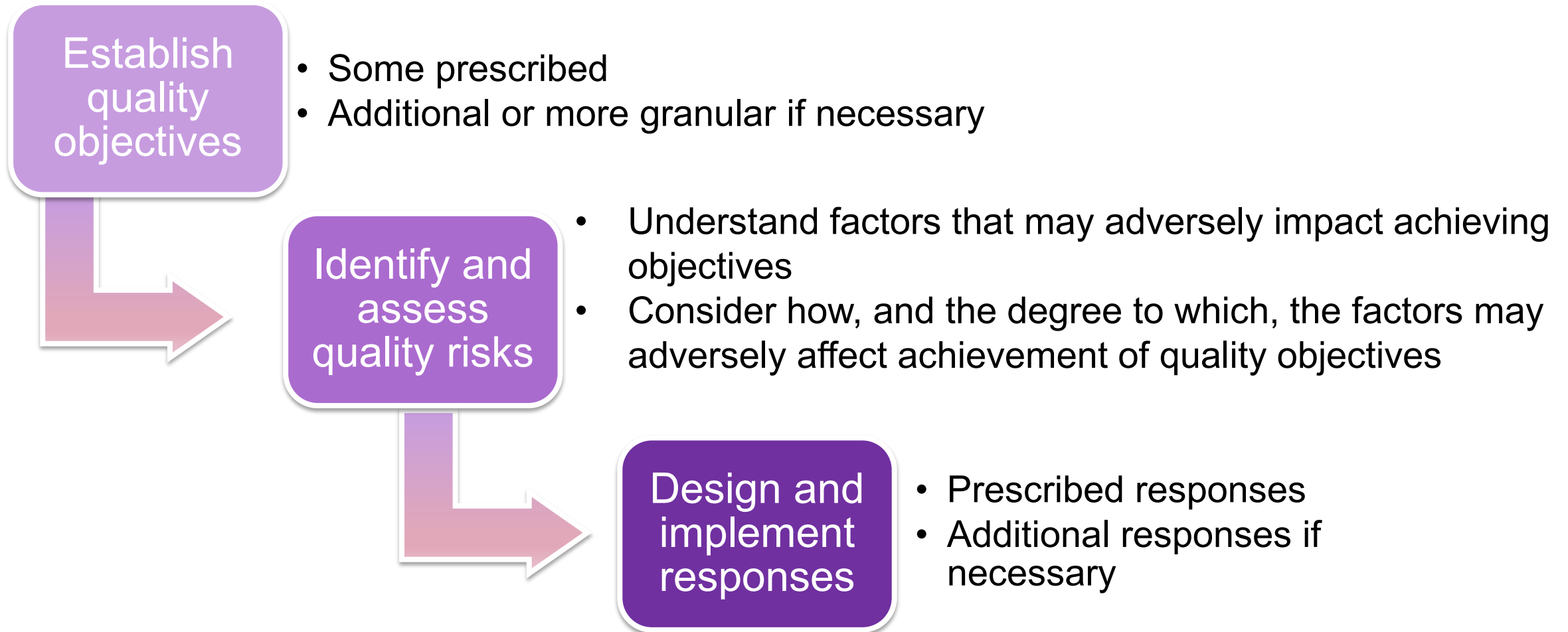
# SQMS No. 1: Other aspects

- 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

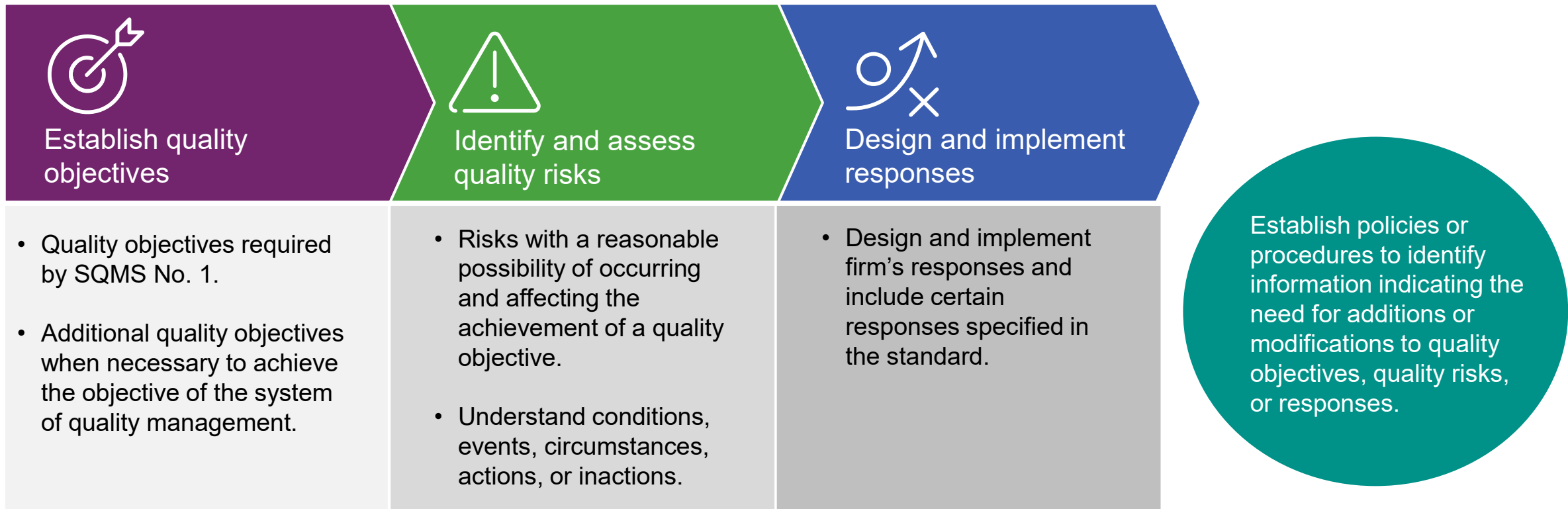




# SQMS 1: Risk assessment process



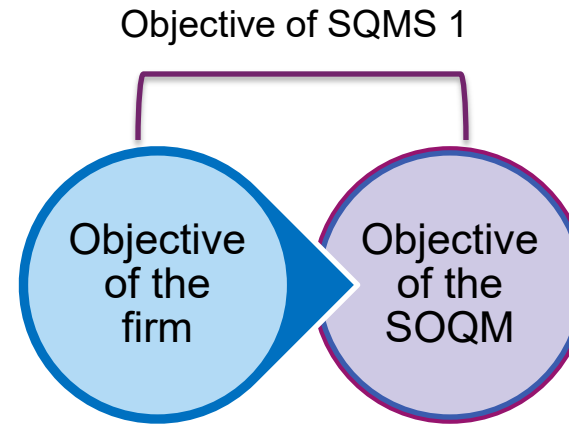
# The risk assessment process (NEW!)



# 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 Continuanace
- Engagement performance
- Resources
- Information and Communication



# Risk Assessment Process: Identify and Assess Quality Risks

Understand the factors (that is, conditions, events, circumstances, actions or inactions) that may adversely affect the achievement of the quality objective.



Consider how, and the degree to which, the factors may adversely affect the achievement of the quality objective.



Assessed quality risk:  
A risk that has a reasonable possibility of:

- (i) Occurring; and
- (ii) Individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives.

# 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

# Relationship between SQMS 1 and SQMS 2

## SQMS 1:

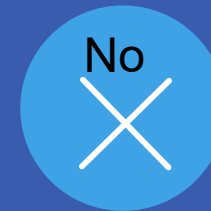


Specified responses to risks identified include EQ reviews:

- 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:



SQMS 2 does not apply



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

# 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

# Other quality management related standards

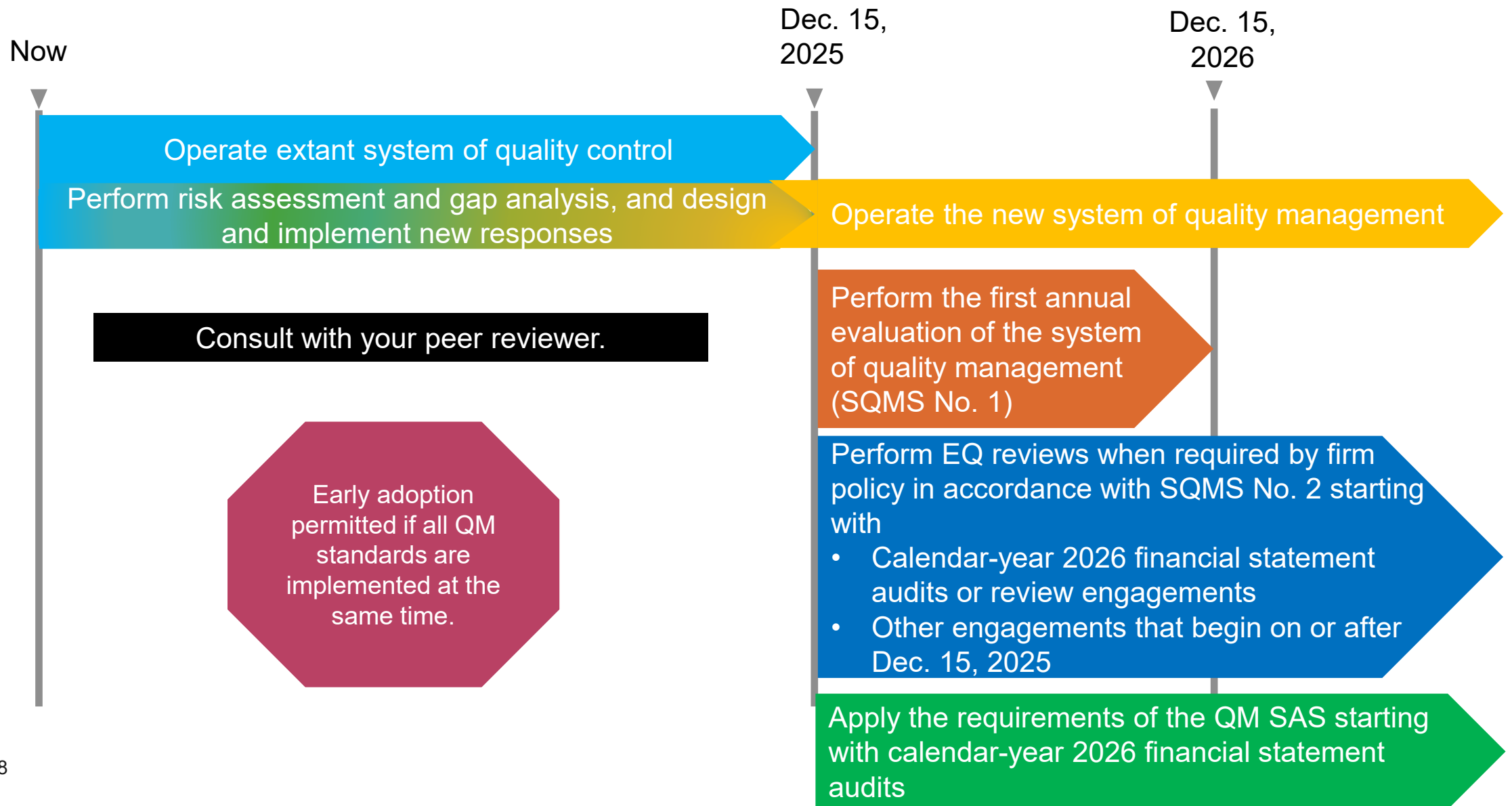
## *SSARS No. 26, Quality Management for an Engagement Conducted in Accordance With Statements on Standards for Accounting and Review Services*

- 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).

# 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.**

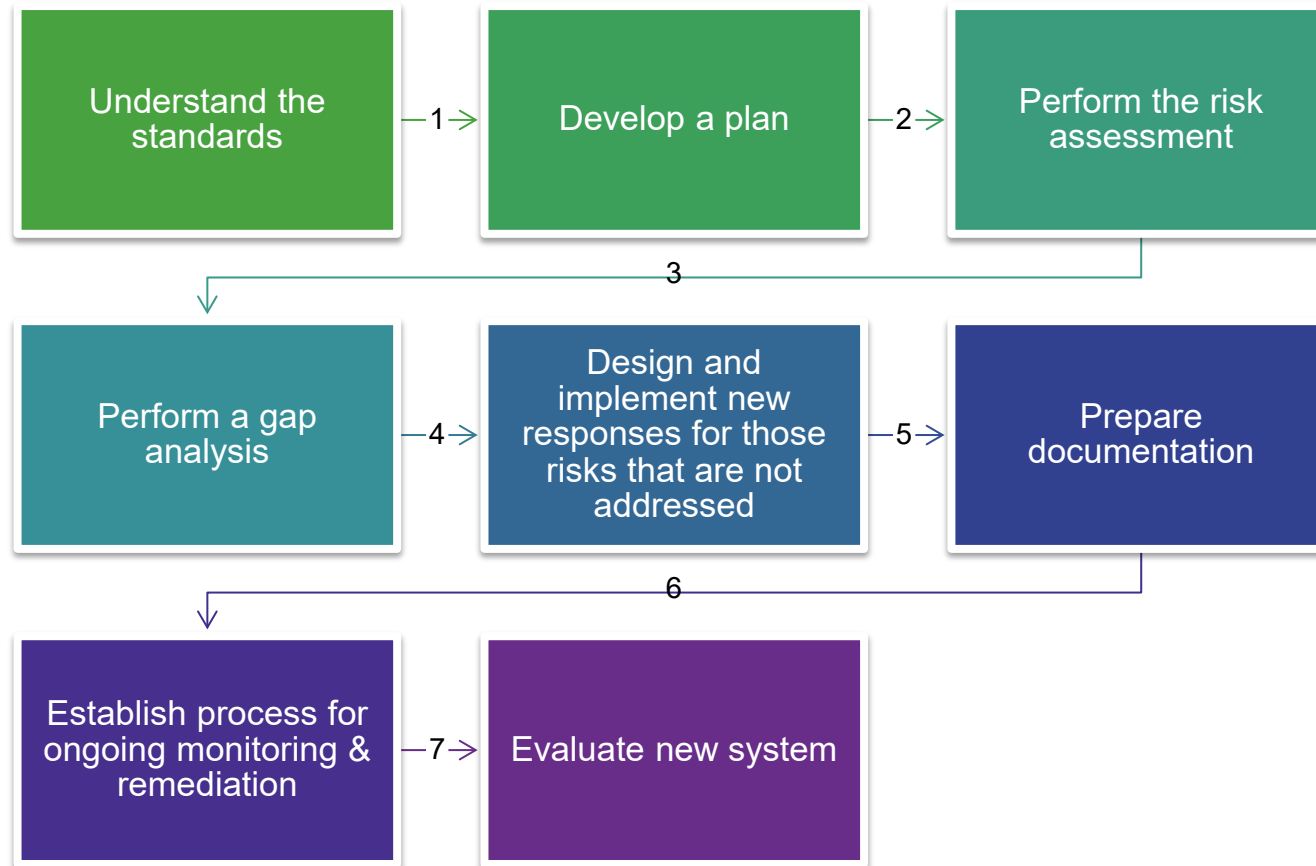
- *If you have not started, need to start now,*
- *Do it right the first time,*
- *Get it done on time*



## Firm implementation checklist – deep dive

- ☐ 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



# Coastal Contact Information

Please submit any additional  
questions to:

**[Peerreview@coastalpeerreview.org](mailto:Peerreview@coastalpeerreview.org)**



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