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# Chapter 1 – Overview of Statements on Quality Management Standards

Statement on Quality Management Standards (SQMS) No. 1, *A Firm's System of Quality Management*, (QM section 10),<sup>1</sup> was issued by the Auditing Standards Board of the AICPA in June 2022 and is effective for a firm's accounting and auditing practice as of December 15, 2025. This standard supersedes Statement on Quality Control Standards No. 8, *A Firm's System of Quality Control*.<sup>2</sup>

The biggest change reflected in the new QM standard is the introduction of a risk-based approach in designing, implementing, and operating a system of quality management (SOQM), which helps firms identify and address risks specific to their practice and creates a more scalable approach to quality for all firms. The risk-based approach comprises (a) establishing quality objectives (the desired outcomes relating to the components of the SOQM to be achieved by the firm); (b) identifying and assessing quality risks (a risk that has a reasonable possibility of occurring and, individually or in combination with other risks, adversely affecting the achievement of one or more quality objectives); and (c) designing and implementing responses (policies or procedures designed and implemented by the firm to address one or more quality risks).

The standard's approach emphasizes the responsibility of firm leadership for proactively managing quality and provides flexibility to deal with differences in the size of firms and the nature of the services they provide. The essence of this approach is to focus firms' attention on risks that may have an impact on engagement quality. The approach requires a firm to customize the design, implementation, and operation of its SOQM based on the nature and circumstances of the firm and the engagements it performs. The standard also has an increased emphasis on a continual flow of remediation and improvement.

An SOQM addresses the following eight components, which are highly integrated and do not act in a linear manner:

1. The firm's risk assessment process
2. Governance and leadership
3. Relevant ethical requirements
4. Acceptance and continuance of client relationships and specific engagements
5. Engagement performance
6. Resources
7. Information and communication
8. The monitoring and remediation process

The objective of the firm is to design, implement, and operate an SOQM for its accounting and auditing practice that provides the firm with reasonable assurance that

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

In this context, reasonable assurance is not intended to be obtained through independent assurance that the system is effective (for example, by having a peer review every year); instead, it is obtained through the operation of the system as a whole.

<sup>1</sup> The QM sections can be found in AICPA *Professional Standards*.

<sup>2</sup> The Statements on Quality Control Standards are codified in the QC sections in AICPA *Professional Standards*.

# The Firm's Risk Assessment Process

The purpose of the risk assessment process element of an SOQM is to establish quality objectives, identify and assess quality risks, and design and implement responses to address the quality risks. The risk assessment process section of SQMS No. 1 focuses firms' attention on risks that may have an impact on engagement quality.

The risk assessment is a three-step process:

1. **Establish quality objectives.** The standard requires the firm to establish specific quality objectives for each component except risk assessment and monitoring and remediation. The firm is required to establish additional quality objectives when necessary to achieve the objective of the SOQM. However, the firm may not find it necessary to establish additional quality objectives.
2. **Identify and assess risks to the achievement of the quality objectives** (referred to in the standard as quality risks). Identifying and assessing quality risks involves
  - a. understanding the factors (that is, the conditions, events, circumstances, actions, or inactions) that may adversely affect the achievement of the quality objectives and

- b. taking into account how and the degree to which the factors may adversely affect the achievement of the quality objectives. (The assessment of identified quality risks does not require formal ratings or scores.)

A risk arises from how, and the degree to which, a condition, event, circumstance, action, or inaction may adversely affect the achievement of a quality objective. Not all risks meet the definition of a quality risk.

3. **Design and implement responses to address the quality risks.** The nature, timing, and extent of the firm's responses to address the quality risks are based on, and responsive to, the reasons for the assessments given to the quality risks. Certain responses are specified in the standard; however, the specific responses required by the standard will not be sufficient for the firm to address all its quality risks.

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

# Governance and Leadership

The purpose of the governance and leadership element of an SOQM is to promote an internal culture based on the recognition that quality is essential in performing engagements. The governance and leadership section of SQMS No. 1 addresses the expected behavior of firm leadership in setting the tone at the top, the appropriate qualifications of leadership, and holding leadership accountable through performance evaluations. The standard also addresses the importance of quality in the firm's strategic decisions and actions — including financial and operational priorities — as well as firm leadership's ability to influence decisions about the firm's resources.

The firm is required to assign ultimate responsibility and accountability for the SOQM to the firm's CEO, managing partner (or equivalent), or if appropriate, managing board

of partners (or equivalent). In addition, the firm is required to assign the following to designated individuals:

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

SQMS No. 1 emphasizes the firm's commitment to quality through a culture that reflects the firm's role in serving the public interest through consistent quality engagements. Leadership demonstrating a commitment to quality through its actions and behaviors reinforces the responsibility that all personnel hold for quality relating to the performance of engagements and activities within the SOQM.

# Relevant Ethical Requirements

The purpose of the relevant ethical requirements element of an SOQM is to provide the firm with reasonable assurance that the firm and its personnel comply with relevant ethical requirements when performing professional responsibilities. The relevant ethical requirements component of SQMS No. 1 addresses responsibilities regarding ethical requirements for the firm and its personnel as well as others in the firm's network. The following quality objectives should be established relating to the firm and its personnel:

- Understand the relevant ethical requirements to which the firm and the firm's engagements are subject.
- Fulfill their responsibilities in relation to the relevant ethical requirements to which the firm and the firm's engagements are subject.

The firm should also ascertain that others (including the network, network firms, individuals in the network or network firms, or service providers) who are subject to the relevant ethical requirements to which the firm and the firm's engagements are subject

- understand the relevant ethical requirements that apply to them, and
- fulfill their responsibilities in relation to the relevant ethical requirements that apply to them

Examples of relationships between the relevant ethical requirements component and other components include the following:

- The information and communication component may address the communication of various matters related to relevant ethical requirements, including
  - the firm communicating the independence requirements to all personnel and others subject to independence requirements.

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

The relevant ethical requirements that apply to others depend on the provisions of the relevant ethical requirements and how the firm uses others in its SOQM or in performing engagements. Examples follow:

- Relevant ethical requirements may include requirements for independence that apply to network firms or employees of network firms.
- The principle of confidentiality may apply to the firm's network, other network firms, or service providers when they have access to client information obtained by the firm.

# Acceptance and Continuance of Client Relationships and Specific Engagements

The purpose of the acceptance and continuance of client relationships and specific engagements component of an SOQM is to provide reasonable assurance that the firm makes appropriate judgments about whether to accept or continue a client relationship and whether to perform a specific engagement. A firm's acceptance and continuance policies represent a key element in quality management, while also mitigating litigation and business risk. This component of SQMS No. 1 also addresses quality objectives for firms around client acceptance and continuance decisions. These objectives include judgments by the firm to accept or continue a client relationship or specific engagement based on

- information obtained about the nature and circumstances of the engagement.

- information obtained about the integrity and ethical values of the client, including the identity and business reputation of the client's principal owners, key management, and those charged with its governance.
- the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements

SQMS No. 1 also emphasizes that the financial and operational priorities of the firm should not lead to inappropriate judgments about whether to accept or continue a client relationship or specific engagement.

## Engagement Performance

The purpose of the engagement performance element of an SOQM is to provide the firm with reasonable assurance that engagements are consistently performed in accordance with applicable professional standards and regulatory and legal requirements and that the firm issues reports that are appropriate in the circumstances. The engagement performance section of SQMS No. 1 provides quality objectives that firms should establish to obtain reasonable assurance that high-quality performance is being attained in the firm's engagements. Establishing and maintaining quality objectives such as the following help the firm in obtaining reasonable assurance relating to the engagement performance element of an SOQM:

- Engagement teams understand and fulfill their responsibilities in connection with the engagements, including, as applicable, the overall responsibility of engagement partners for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement.
- The nature, timing, and extent of direction and supervision of engagement teams and review of the work performed is appropriate based on the nature and

circumstances of the engagements and the resources assigned or made available to the engagement teams; the work performed by less experienced engagement team members is directed, supervised, and reviewed by suitably experienced engagement team members.

- Engagement teams exercise appropriate professional judgment and, when applicable to the type of engagement, maintain professional skepticism.
- Consultation on difficult or contentious matters is undertaken, and the conclusions agreed to are implemented.
- Differences of opinion within the engagement team, or between the engagement team and the engagement quality reviewer or individuals performing activities within the firm's SOQM, are brought to the attention of the firm and resolved.
- Engagement documentation is assembled on a timely basis after the date of the engagement report and is appropriately maintained and retained to meet the needs of the firm and comply with law, regulation, relevant ethical requirements, and professional standards.

## Resources

The purpose of the resources element of an SOQM is to provide the firm with reasonable assurance that it is appropriately obtaining, developing, using, maintaining, allocating, and assigning resources in a timely manner to enable the design, implementation, and operation of the SOQM. SQMS No. 1 addresses all resources that the firm needs both to operate the system and to perform engagements. These resources cover the following:

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

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

## Information and Communication

The purpose of the information and communication element of an SOQM is to address the importance of communicating information obtained, generated, or used both within the firm and to external parties on a timely basis to enable the design, implementation, and operation of the SOQM.

This component of SQMS No. 1 underscores the importance of a continuous flow of information and communication by linking the exchange of information to the firm's culture so that it is driven from top leadership throughout the firm. The standard requires that the firm establish an information system with processes to identify, capture, process, and maintain information, acknowledging that less complex firms with fewer

personnel and direct involvement of leadership may accomplish the objective with less rigorous or detailed policies and procedures.

This component of SQMS No. 1 also encourages firms to be transparent to external parties about their SOQM in a relevant, innovative, and proactive manner. This component requires that firms establish policies and procedures that address when communications with external parties are appropriate. To promote continual innovation in this area, the standard provides flexibility regarding the specific information communicated, the form of that communication, and the nature, timing, and extent of communication.

# Monitoring and Remediation

The purpose of the monitoring and remediation process element of an SOQM is to provide the firm with relevant, reliable, and timely information about the design, implementation, and operation of the SOQM so the firm may take appropriate action to remediate identified deficiencies on a timely basis. SQMS No. 1 focuses on monitoring activities that address the entire SOQM. The standard emphasizes performing tailored monitoring activities sufficient to provide a basis for the firm to evaluate the SOQM.

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

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

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

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

# Chapter 2 – Overview of Risk Assessment Requirements

The starting point for the system of quality management (SOQM) is the design and implementation of a risk assessment process to

- establish quality objectives;
- identify and assess quality risks; and
- design and implement responses to address the quality risks.

**This chapter describes the requirements for the firm to perform a risk assessment** (see paragraphs .24–.28 and .A40–.A55 of Statement on Quality Management Standards [SQMS] No. 1, *A Firm’s System of Quality Control* [QM section 10]<sup>1</sup>) and includes practical guidance for performing the risk assessment.

## Establish quality objectives

The firm should establish for each of the following components quality objectives required by the standard:

- Governance and leadership
- Relevant ethical requirements
- Acceptance and continuance of client relationships and specific engagements
- Engagement performance
- Resources
- Information and communication

These specific quality objectives are discussed later in this practice aid.

The firm might find it helpful to break the quality objectives into sub-objectives, although that is not required.

Firms should establish policies or procedures to identify information indicating that additional quality objectives are needed due to the firm’s circumstances. However, the quality objectives are sufficiently comprehensive that it is unlikely the firm would find it necessary to establish additional quality objectives.

<sup>1</sup> All QM sections can be found in AICPA *Professional Standards*.



# Identify Quality Risks

There may be many risks that could adversely affect the achievement of the quality objectives. However, it is not reasonable or practicable for the firm to identify and assess every possible risk and to design and implement responses for every risk. Accordingly, the standard requires the firm to identify *quality* risks.

A risk qualifies as a quality risk when it meets both of the following criteria:

**1** The risk has a reasonable possibility of occurring.

**2** The risk has a reasonable possibility of, individually or in combination with other risks, adversely affecting the achievement of one or more quality objectives.

The firm exercises professional judgment in determining whether a risk meets the threshold set out in the definition of quality risks.



**NOTE:** The threshold for identifying quality risks is at the level of the quality objectives. If a firm has sub-objectives, there may be circumstances in which a risk has a reasonable possibility of adversely  **affecting the achievement of the sub-objective** , but does not have a reasonable possibility of adversely  **affecting the achievement of a quality objective** ; in this case, the risk would not be considered a quality risk.

# How the Firm Identifies and Assesses Quality Risks

The process the firm is required to follow in identifying and assessing quality risks is as follows:

## Step 1: Identify the risks.

Understand the various conditions, events, circumstances, actions, or inactions related to the firm and its engagements that could adversely affect the achievement of the quality objectives. The risks include anything that could prevent the firm from achieving the quality objectives. For example, not taking any positive action to achieve the quality objective would prevent the firm from achieving the quality objective.

## Step 2: Assess the risks.

In assessing the risks, the firm takes into account the following:

- How and the degree to which the conditions, events, circumstances, actions, or inactions may affect the achievement of the quality objectives.
- The likelihood of the risk occurring. This is necessary to determine whether the risk meets the threshold of a quality risk.

Another way of expressing this is in terms of likelihood and magnitude. How likely is the risk to occur? How bad would it be if it did? The identification and assessment of the quality risks may be undertaken simultaneously. A firm may choose to identify and assess quality risks as two discrete steps, but this is not required.



# The Conditions, Events, Circumstances, Actions, or Inactions that Could Adversely Affect the Achievement of the Quality Objectives

QM section 10 includes specific conditions, events, circumstances, actions, or inactions related to the nature and circumstances of the firm and its engagements that the firm is required to

- understand and
- take into account, thinking about how they may adversely affect the achievement of the quality objectives.

The next step is for the firm to identify any quality risks.

The following table lists these specific conditions, events, circumstances, actions, or inactions.

The Conditions, Events, Circumstances, Actions, or Inactions that the Firm Is Required to Understand	
<b>The complexity and operating characteristics of the firm</b>	Matters such as the size of the firm; the geographical dispersion of the firm; how the firm is structured; the extent to which the firm concentrates or centralizes its processes or activities (for example, use of service delivery centers); and the characteristics and availability of the firm’s resources.
<b>The strategic and operational decisions and actions, business processes, and business model of the firm</b>	Matters such as decisions about financial and operational priorities, including the firm’s strategic goals; how financial resources are managed; growth of the firm’s market share; industry specialization; and new industries or service offerings.
<b>The characteristics and management style of leadership</b>	Matters such as the composition and tenure of firm leadership; how authority is distributed among leadership; how leadership motivates and encourages personnel; and the culture created by firm leadership.
<b>The resources of the firm, including the resources provided by service providers</b>	<p>Matters such as the general background of the firm’s personnel and overall staff profile and structure; the use of technology and how that technology is obtained, developed, and maintained; and the availability and allocation of financial resources.</p> <p>With respect to service providers, matters such as the nature of the resources provided by service providers; how and the extent to which they will be used by the firm; and the general characteristics of the service providers used by the firm.</p>
<b>Law, regulation, professional standards, and the environment in which the firm operates</b>	Matters such as regulations directly relevant to the firm and professional standards, other standards, or regulations affecting engagements performed by the firm (for example, general purpose frameworks for financial reporting commonly used in the jurisdiction).

## The Conditions, Events, Circumstances, Actions, or Inactions that the Firm Is Required to Understand

<b>The nature and extent of the network requirements and network services</b>	Matters such as the nature of the network; how the network is organized; and the quality of network requirements or network services provided.
<b>The types of engagements performed by the firm and the reports to be issued</b>	<p>Matters such as which engagements the firm performs, including</p> <ul style="list-style-type: none"><li>• audits or reviews of financial statements, and whether the firm performs engagements to report on summary financial statements or reviews of interim financial statements</li><li>• other assurance or related services engagements and the types of subject matter for which such engagements are undertaken (for example, sustainability reports, controls at service organizations)</li></ul> <p>The firm may also understand and consider how the reports the firm issues may be used.</p>
<b>The types of entities for which engagements are undertaken</b>	Matters such as the industries in which the firm's clients operate and the nature of their business; the size and complexity of the firm's clients; the nature of the firm's clients' shareholding (for example, owner-managed); and the size or nature of the firm's clients' stakeholders.

It is essential to note that this list of conditions, events, circumstances, actions, or inactions is not exhaustive. There may be other conditions, events, circumstances, actions, or inactions that may adversely affect the achievement of a quality objective, which the firm would need to understand and further consider to determine whether a quality risk exists.

Furthermore, not all the conditions, events, circumstances, actions, or inactions are relevant to every quality objective.

The following table includes examples of conditions, events, circumstances, actions, or inactions that may adversely affect the achievement of the quality objectives, and the quality risks that may arise.

Condition, event, circumstance, action, or inaction that may adversely affect the achievement of a quality objective	Quality risks that may arise
<p><b>The complexity and operating characteristics of the firm.</b> The firm is a large firm with multiple offices. Each office has a leader in charge of engagement quality and administrative and operational matters.</p>	<p>In the context of governance and leadership, quality risks relating to how a consistent culture is maintained throughout the firm because of the dispersion of the firm and the leadership responsibilities</p>
<p><b>The strategic and operational decisions and actions, business processes, and business model of the firm.</b> The firm has a strategic goal to grow its tax practice and offer more extensive tax planning advice and support.</p>	<p>In the context of relevant ethical requirements, a quality risk that the firm breaches independence requirements regarding nonaudit services</p>
<p><b>The characteristics and management style of leadership.</b> Given that the firm is small, leadership is concentrated to a single individual who has daily interactions with personnel.</p>	<p>In the context of engagement performance, a quality risk that personnel do not bring differences of opinion that involve leadership to the attention of the firm</p>
<p><b>The resources of the firm, including the resources provided by service providers.</b> The firm has a service delivery center located in another jurisdiction that performs certain aspects of the firm’s audit engagements.</p>	<p>In the context of engagement performance, a quality risk that engagement personnel are not appropriately directed and supervised and that their work is not appropriately reviewed</p>
<p><b>Law, regulation, professional standards, and the environment in which the firm operates.</b> Due to the global pandemic, engagement teams work remotely.</p>	<p>In the context of information and communication, a quality risk that information is not communicated appropriately to engagement teams working remotely, such that engagement teams are unable to understand and carry out their responsibilities in performing the engagement</p>
<p><b>Law, regulation, professional standards, and the environment in which the firm operates.</b> New regulations are introduced mandating audit firm rotation every 10 years, resulting in the firm losing many of its engagements in quick succession and many personnel becoming underutilized.</p>	<p>In the context of acceptance and continuance, a quality risk that the firm inappropriately accepts a client relationship or specific engagement, given that the firm has excess staff capacity</p>

Condition, event, circumstance, action, or inaction that may adversely affect the achievement of a quality objective	Quality risks that may arise
<p><b>The nature and extent of the network requirements and network services.</b> The network requires all firms in the network to use the network-developed IT software for independence. Personnel are required to record their financial interests in the software, and all services to clients are logged in the software. The software tracks information to automatically alert the firm if there is an independence breach.</p>	<p>In the context of relevant ethical requirements, a quality risk that the network does not appropriately take into account requirements regarding independence in developing the software and that the firm is not alerted when there is an independence breach</p>
<p><b>The types of engagements performed by the firm and the reports to be issued.</b> The firm performs assurance engagements for greenhouse gas statements.</p>	<p>In the context of resources, a quality risk that the firm does not have appropriate intellectual resources to support these engagements and that engagement teams use intellectual resources that do not take into account laws and regulations related to emissions</p>
<p><b>The types of entities for which engagements are undertaken.</b> The firm performs compilations of financial statements for entities that operate in an industry in which recent revisions to the accounting standards have given rise to complex financial statement disclosures. Typically, the compilation engagements performed by the firm are not complex.</p>	<p>In the context of engagement performance, a quality risk that the engagement teams performing the compilations do not undertake appropriate consultation, given that they have not previously needed to consult on complex financial statement disclosures</p>
<p><b>The types of entities for which engagements are undertaken.</b> The firm performs audits of entities involved in an industry with specialized accounting.</p>	<p>In the context of resources, a quality risk that personnel lack the appropriate knowledge or experience of relevant accounting standards applicable to that industry</p>



The firm is not required to document the consideration of every condition, event, circumstance, action, or inaction that may give rise to a quality risk. The documentation of the quality risks may include the reasons for the assessment given to the quality risks (that is, the considered occurrence and effect on the achievement of the quality objectives).

In some circumstances, it may be appropriate for the firm to document its process and analysis for establishing quality objectives, identifying and assessing quality risks, and designing responses to such risks, to provide a history of the basis for decisions made by the firm about its SOQM.

Further considerations on documentation are included in the documentation section.

# Practical Tips on Designing and Performing the Risk Assessment Process

Your firm may find the following tips helpful in organizing the process.

**Determine who within the firm will take ownership and lead the implementation process.**

- Note that SQMS No. 1 requires that the firm assign ultimate responsibility and authority for the SOQM to the firm’s managing partner, and assign, to appropriate individuals within the firm, (i) operational responsibility for the SOQM, and (ii) operational responsibility for specific aspects of the SOQM. Note that, depending on firm size, these may all be the same person.

**Determine the resources – human, intellectual, and technical – needed for successful implementation.**

Tip: your staff may view working on this project as an opportunity.

**Develop a timeline for performing the risk assessment and designing and implementing responses, that ends with full compliance with SQMS No. 1 by December 15, 2025.**

**Talk with your peer reviewer about your implementation plan. Note that your peer reviewer, to maintain independence, cannot be part of your SOQM – just like you can’t be part of your client’s system of internal control over financial reporting – but can advise you.**

**Plan a risk assessment brainstorming session (or more than one) to do the following:**

- Determine the order in which the components will be assessed. It could be all at once, one at a time, or in groupings (such as acceptance/resources, followed by performance/information, followed by governance and ethical components).

- Determine the participants for the components. Depending on the component and the size of your firm, you might find it necessary to involve the firm’s other departments (such as IT, HR, and risk advisory).

- Develop a template that includes the quality objectives for that component, along with space to document brainstorming risks identified, risk significance, and planned responses. Or use whiteboards or sticky notes, and take pictures of them at the end of the session.

**Hold a risk assessment session and during the meeting:**

- Set a time limit on brainstorming and stick to it.
  - Do not get stuck on one area.
  - Remember the goal at this stage is to identify and assess the risks, not to develop responses.
  - Keep front of mind that risk assessment is iterative, and the firm may find more ideas as implementation develops.
- Brainstorm risk identification.
  - Think about what in your practice could go wrong from a quality perspective.
  - Think about what you have to do (or are currently doing) in your practice to make sure things go right.
  - Consider any information the firm may have related to current quality risks (for example, information provided to insurance carriers).
- Go over the identified risks and assess them for likelihood and magnitude. Decide which risks are quality risks. It may take a few iterations to determine the appropriate level for quality risks, to avoid being too granular or too high level. (This step may call for a separate session.)

- Do just enough to know that the risk will warrant a response and move on.
    - You do not have to document every risk that is considered.
    - You may wish to track borderline risks that don't quite rise to quality risks for reassessment in the future.
    - Tip: moving into a new industry or area of practice is always a quality risk.
  - Don't worry about perfection in documentation — just get it in your file.
  - Don't worry about matching risks to objectives.
  - Don't spend time trying to perfect the likelihood, magnitude, or reasons for the risk.
  - The number of risks a firm should identify is a matter of professional judgment and depends on the nature and circumstances of the firm. But consider:
    - If you have many risks that are covered by the same responses (for example, policies and procedures), that's a sign you're too granular, and you may wish to group the risks.
    - If you have haven't identified risks associated with all responses (for example, policies and procedures), that may be a sign that you haven't identified enough quality risks.
- **Perform a gap analysis. Based on the quality risks identified, map current controls — or “responses to quality risks,” as SQMS No. 1 calls them.**
    - Identify quality risks without appropriate responses as well as any current responses that do not map to a quality risk.
    - Take note of the specified responses within SQMS No. 1 that the firm is required to design and implement.
      - Design and implement new responses for risks that are not addressed. Consider discontinuing current responses that do not map to a quality risk.
      - Document the risk assessment process. This documentation does not need to be very detailed; it should describe the process (that is, what you did to identify and assess quality risks) without including every risk identified.

# Chapter 3 – Library of Quality Objectives, Potential Risks, and Potential Responses

## Instructions for Using this Library

This chapter addresses the components that are subject to the risk assessment process, which are all components, except for the risk assessment process, which is addressed in chapter 2, “Risk Assessment”, and monitoring, which is addressed in chapter 4, “Monitoring and Remediation Process.”

This chapter is organized by component. For each component in this chapter, there are four tables:

- **Table 1:** Required Quality Objectives
- **Table 2:** Required Quality Objectives and Potential Quality Risks
- **Table 3:** Required and Suggested Quality Responses
- **Table 4:** Example of Evaluated Quality Risks and Linked Responses

### Table 1: Required Quality Objectives

This table contains the quality objectives (QO) that the firm is required to establish for the component.

### Table 2: Required Quality Objectives and Potential Quality Risks

This table contains the quality objectives that the firm is required to establish for the component. Following each objective is a repository of potential quality risks (QRi). (Note: You may believe that a risk fits better under a different quality objective. If so, feel free to move it; what is important is that all quality risks are identified.)

### Quality Risks

A risk arises from how, and the degree to which, a condition, event, circumstance, action, or inaction may adversely affect the achievement of a quality objective. A quality risk is a risk that has a reasonable possibility of occurring, and individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives. Not all risks meet the definition of a quality risk.

The quality risks library is intended to be a repository of potential risks; it is not all-inclusive, nor are all quality risks in the library necessarily applicable to your firm. In identifying and assessing quality risks, focus on understanding conditions, events, circumstances, actions, or inactions that relate to the nature and circumstances of your firm and its engagements. The scalability of the Statements on Quality Management Standards (SQMSs) lies in your ability to identify the risks and responses that are appropriate for the nature and circumstances of your practice. The quality risks in the library should be tailored to suit your firm. You may decide to evaluate risks at a very high level, for example, stating risks as the reverse of the quality objectives, in which case, all the risks would be quality risks. You may decide to evaluate risks at a somewhat more granular level or at a very granular level, or a combination of these approaches.

To determine if a risk is a quality risk for your firm

- determine the likelihood of the risk occurring, and
- determine the impact that the risk could have, whether individually or in combination with other risks, to the firm achieving one or more quality objectives.



**Note:** Formal ratings or scores are not required by QM section 10, *A Firm's System of Quality Management*. However, this practice aid provides drop-down menus to assess the risks as low, medium, or high. Risks that have a low likelihood of occurring and a low impact are not considered quality risks for purposes of this practice aid.

**WARNING:** The risk is evaluated before the effect of controls (that is, quality responses, which are policies and procedures). You may think that a quality risk doesn't exist because your firm already has effective controls to mitigate it. Evaluate risks as if you were starting to build a system of quality management (SOQM) from the ground up. (On the Responses tab, you can consider your existing policies and procedures).

### Table 3: Required and Suggested Quality Responses

Responses (QRe) are policies or procedures designed and implemented by firms to address one or more quality risks. Policies are identified with bold text.

QM section 10 has a limited number of required specified responses, which are identified in this practice aid. The firm is expected to design and implement its own additional responses that are responsive to its identified quality risks. In addition to the required specific responses, this table contains potential additional

responses that should be linked to your firm's risks and tailored to suit the nature and circumstances of your firm.

Although responses are categorized by component, responses may be related in several ways. A response may address multiple quality risks across various components. For example, the responses designed and implemented by the firm to address complaints and allegations may address quality risks related to the quality objectives in (i) resources (for example, personnel's commitment to quality), (ii) relevant ethical requirements, and (iii) governance and leadership.

A response may support another response in another component. This is particularly the case for responses related to resources and information and communication because these elements are often needed to support the operation of other responses. See the exhibit, "Relevant Responses From Other Components," at the end of this chapter.

### Table 4: Example of Evaluated Quality Risks and Linked Responses

This table provides examples of evaluated quality risks and linked responses to the quality risk. Please note that this is for illustrative purposes only. Your firm may identify other risks, may evaluate the likelihood and impact of those risks differently, and may choose other responses. The examples are not complete; if all you do is copy and paste the examples, your SOQM will not provide reasonable assurance of achieving its objectives.

The examples included illustrate the documentation of establishing quality objectives, evaluating quality risks, and designing the firm's responses to those quality risks. This is not a complete picture of an established SOQM. The implementation, evaluation, and monitoring of the system will need to be documented and established, as well.

# Governance and Leadership

**Table 1: Required Quality Objectives— Governance and Leadership**

QO #	Ref:	Quality Objectives
GOV QO-1	QM sec. 10, par. .29a	<p>The firm demonstrates a commitment to quality through a culture that exists throughout the firm, which recognizes and reinforces the following:</p> <ul style="list-style-type: none"> <li>• The firm’s role in serving the public interest by consistently performing quality engagements</li> <li>• The importance of professional ethics, values, and attitudes</li> <li>• The responsibility of all personnel for quality relating to the performance of engagements or activities within the SOQM and their expected behavior</li> <li>• The importance of quality in the firm’s strategic decisions and actions, including the firm’s financial and operational priorities</li> </ul>
GOV QO-2	QM sec. 10, par. .29b	Leadership is responsible and accountable for quality.
GOV QO-3	QM sec. 10, par. .29c	Leadership demonstrates a commitment to quality through its actions and behaviors.
GOV QO-4	QM sec. 10, par. .29d	The organizational structure and assignment of roles, responsibilities, and authority is appropriate to enable the design, implementation, and operation of the firm’s SOQM.
GOV QO-5	QM sec. 10, par. .29e	Resource needs, including financial resources, are planned for, and resources are obtained, allocated, or assigned in a manner that is consistent with the firm’s commitment to quality.

**Table 2: Required Quality Objectives and Potential Quality Risks – Governance and Leadership**

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
<b>GOV QO-1</b>	<b>QM sec. 10, par. .29a</b>	The firm demonstrates a commitment to quality through a culture that exists throughout the firm, which recognizes and reinforces the following: 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>GOV QO-1</b>	<b>GOV QRI-1</b>	I do not demonstrate a commitment to quality through the culture that exists throughout my firm.	Choose an item.	Choose an item.	Choose an item.
<b>GOV QO-1</b>	<b>GOV QRI-2</b>	I do not acknowledge my firm’s role in serving the public interest and do not strive to perform quality engagements.	Choose an item.	Choose an item.	Choose an item.
<b>GOV QO-1</b>	<b>GOV QRI-3</b>	I do not recognize or reinforce the importance of professional ethics, values, and attitudes.	Choose an item.	Choose an item.	Choose an item.
<b>GOV QO-1</b>	<b>GOV QRI-4</b>	I do not recognize or reinforce the responsibility of all per-diem personnel for quality relating to the performance of engagements or activities within the SOQM and their expected behavior.	Choose an item.	Choose an item.	Choose an item.
<b>GOV QO-1</b>	<b>GOV QRI-5</b>	I do not recognize or reinforce the importance of quality in my firm’s strategic decisions and actions, including my firm’s financial and operational priorities.	Choose an item.	Choose an item.	Choose an item.
<b>GOV QO-1</b>	<b>GOV QRI-6</b>	I allow my commitment to quality to suffer due to the pressures of running a profitable practice.	Choose an item.	Choose an item.	Choose an item.
<b>GOV QO-1</b>	<b>GOV QRI-7</b>	I accept engagements for which I am not qualified because I don’t want to risk losing other engagements I perform for the client.	Choose an item.	Choose an item.	Choose an item.
<b>GOV QO-1</b>	<b>GOV QRI-8</b>	I fail to obtain, allocate, and assign the appropriate resources (human, technological, or intellectual resources) to carry out the execution of the commitment to quality.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
GOV QO-1	QM sec. 10, par. .29a	The firm demonstrates a commitment to quality through a culture that exists throughout the firm, which recognizes and reinforces the following: 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			
GOV QO-1	GOV QRI-9	I fail to plan for future needs.	Choose an item.	Choose an item.	Choose an item.
GOV QO-1	GOV QRI-10	I “set and forget” my SOQM and do not take time at least annually to review it.	Choose an item.	Choose an item.	Choose an item.
GOV QO-2	QM sec. 10, par. .29b	Leadership is responsible and accountable for quality.			
GOV QO-2	GOV QRI-11	I do not acknowledge my responsibility or accountability for quality.	Choose an item.	Choose an item.	Choose an item.
GOV QO-2	GOV QRI-12	I do not demonstrate to per-diem personnel a leadership culture that has quality at its core.	Choose an item.	Choose an item.	Choose an item.
GOV QO-2	GOV QRI-13	I do not perform the self-evaluation required by Statement on Quality Management Standards (SQMS) No. 1, <i>A Firm’s System of Quality Management</i> (paragraph 57), regarding the time and effort I devote to the operation of my SOQM.	Choose an item.	Choose an item.	Choose an item.
GOV QO-2	GOV QRI-14	I do not have sufficient and appropriate understanding of the SQMSs or my firm’s SOQM to fulfill my responsibilities.	Choose an item.	Choose an item.	Choose an item.
GOV QO-3	QM sec. 10, par. .29c	Leadership demonstrates a commitment to quality through its actions and behaviors.			
GOV QO-3	GOV QRI-15	I do not demonstrate a commitment to quality through my actions and behaviors when performing engagements or interacting with per-diem personnel or external service providers, such as engagement quality reviewers.	Choose an item.	Choose an item.	Choose an item.
GOV QO-3	GOV QRI-16	I prioritize economic gain over quality through my actions and behaviors.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
<b>GOV QO-4</b>	<b>QM sec. 10, par. .29d</b>	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.			
<b>GOV QO-4</b>	<b>GOV QRI-17</b>	I have more work than I can effectively perform.	Choose an item.	Choose an item.	Choose an item.
<b>GOV QO-4</b>	<b>GOV QRI-18</b>	I do not appropriately assign or evaluate work performed by service delivery centers.	Choose an item.	Choose an item.	Choose an item.
<b>GOV QO-5</b>	<b>QM sec. 10, par. .29e</b>	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.			
<b>GOV QO-5</b>	<b>GL QRI-19</b>	My resource planning does not effectively determine the resources currently required.	Choose an item.	Choose an item.	Choose an item.
<b>GOV QO-5</b>	<b>GL QRI-20</b>	My resource planning does not effectively forecast the firm's future resource needs.	Choose an item.	Choose an item.	Choose an item.
<b>GOV QO-5</b>	<b>GL QRI-21</b>	My resource planning does not effectively establish processes to deal with unanticipated resource needs when they arise.	Choose an item.	Choose an item.	Choose an item.
<b>GOV QO-5</b>	<b>GL QRI-22</b>	I am unwilling to invest in the resources necessary to meet the objectives of the SOQM.	Choose an item.	Choose an item.	Choose an item.
<b>GOV QO-5</b>	<b>GL QRI-23</b>	Insufficient resources are allocated to developing an effective SOQM because the assurance practice is only a small portion of the firm's services.	Choose an item.	Choose an item.	Choose an item.

**Table 3: Required and Suggested Quality Responses – Governance and Leadership**

QRe#	Quality Response	Note, Tip, or Warning
<b>Governance and Leadership</b>		
<b>GOV QRe-1</b>	<b>Policy: I assume ultimate responsibility and accountability for the firm’s SOQM, its operations, and actively pursue quality in performing engagements.</b>	<b>NOTE:</b> This is a required response. [QM sec. 10, par. .21a–b]]
<b>GOV QRe-1.01</b>	<p>I accept ultimate responsibility for</p> <ul style="list-style-type: none"> <li>• the firm’s SOQM.</li> <li>• demonstrating a commitment to quality through a culture that exists throughout the firm and through following the firm’s SOQM.</li> </ul> <p>I explicitly document this responsibility.</p>	<b>NOTE:</b> This is a required response. [QM sec. 10, par. .21b]
<b>GOV QRe-1.02</b>	I have obtained the competency necessary to design, implement, and operate the firm’s SOQM.	
<b>GOV QRe-2</b>	<b>Policy: I document the firm’s SOQM policies and procedures and communicate them to the firm’s personnel, if any.</b>	
<b>GOV QRe-2.01</b>	I document the firm’s SOQM policies and procedures and keep that documentation up to date (reviewing at least annually).	
<b>GOV QRe-2.02</b>	Per-diem personnel are required to acknowledge receipt of the firm’s quality management (QM) document in writing and that they have been informed that failure to adhere to the firm’s policies and procedures or failure to demonstrate commitment to ethical principles may result in termination of the contract or assignment.	
<b>GOV QRe-2.03</b>	When engaged, per-diem personnel receive training on the firm’s QM policies and procedures relevant to their work assignments through an informal discussion.	
<b>GOV QRe-3</b>	<b>Policy: I internalize the message that quality is essential in performing engagements.</b>	
<b>GOV QRe-4</b>	<b>Policy: I do not allow financial and operational priorities to override the quality of the work performed.</b>	
<b>GOV QRe-4.01</b>	I evaluate client relationships and specific engagements so that financial and operational priorities do not override the objectives of the system SOQM.	

QRe#	Quality Response	Note, Tip, or Warning
<b>Governance and Leadership</b>		
<b>GOV QRe-5</b>	<b>Policy: I devote sufficient and appropriate resources to achieve the objectives of the firm's SOQM.</b>	
<b>GOV QRe-5.01</b>	I review and update the firm's SOQM policies, procedures, and documentation on an annual basis.	
<b>GOV QRe-5.02</b>	I consider the costs associated with a strong SOQM, such as the costs of maintaining necessary competency, practice aids, and professional subscriptions, and hiring consultants and engagement quality reviewers, as an investment. I consider these costs when determining rates and fees so that financial and operational priorities will not override the quality of work performed.	
<b>GOV QRe-5.03</b>	Annually, I perform resource planning that includes <ul style="list-style-type: none"> <li>• determining the resources currently required, and</li> <li>• forecasting the firm's future resource needs.</li> </ul>	
<b>GOV QRe-5.04</b>	I evaluate the effectiveness of the resources obtained, allocated, and assigned to ensure they support the firm's commitment to quality.	

## Table 4: Example of Evaluated Quality Risks and Linked Responses – Governance and Leadership

The following table provides examples of evaluated quality risks and linked responses to each quality risk. Please note that this is for illustrative purposes only. Your firm may identify other risks, may evaluate the likelihood and impact of those risks differently, and may choose other responses. The examples are not complete; if all you do is copy and paste these examples, your SOQM will not provide reasonable assurance of achieving its objectives.

The following examples illustrate the documentation of establishing quality objectives, evaluating quality risks, and designing the firm’s responses to those quality risks. This is not a complete picture of an established SOQM. The implementation, evaluation, and monitoring of the system will need to be documented and established, as well.

Governance and Leadership							
QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk	Quality Response	QRe#
<b>GOV QO-1</b>		The firm demonstrates a commitment to quality through a culture that exists throughout the firm, which recognizes and reinforces the following: <ul style="list-style-type: none"> <li>i. The firm’s role in serving the public interest by consistently performing quality engagements</li> <li>ii. The importance of professional ethics, values, and attitudes</li> <li>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</li> <li>iv. The importance of quality in the firm’s strategic decisions and actions, including the firm’s financial and operational priorities</li> </ul>					
<b>GOV QO-1</b>	<b>GOV QRi-3</b>	I do not recognize or reinforce the importance of professional ethics, values, and attitudes.	Low	High	Yes	Policy: I internalize the message that quality is essential in performing engagements.	GOV QRe-3
<b>GOV QO-1</b>	<b>GOV QRi-5</b>	I do not recognize or reinforce the importance of quality in my firm’s strategic decisions and actions, including my firm’s financial and operational priorities.	Medium	High	Yes	I consider the costs associated with a strong SOQM, such as the costs of maintaining necessary competency, practice aids and professional subscriptions, and hiring consultants and engagement quality reviewers, as an investment. I consider these costs when determining rates and fees so that financial and operational priorities will not override the quality of work performed.	GOV QRe-5.02

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk	Quality Response	QRe#
<b>GOV QO-2</b>	Leadership is responsible and accountable for quality.						
<b>QO GOV-2</b>	<b>GOV QRI-11</b>	I do not acknowledge my responsibility or accountability for quality.	<b>Low</b>	<b>High</b>	Yes	I accept ultimate responsibility for <ul style="list-style-type: none"> <li>the firm's SOQM.</li> <li>for demonstrating a commitment to quality through a culture that exists throughout the firm and through following the firm's SOQM.</li> </ul> I explicitly document this responsibility.	GOV QRe-1.01
<b>GOV QO-4</b>	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.						
<b>QO GOV-4</b>	<b>GOV QRI-18</b>	I do not appropriately assign or evaluate work performed by service delivery centers.	<b>High</b>	<b>Medium</b>	Yes	I evaluate the effectiveness of the resources obtained, allocated, and assigned to ensure they support the firm's commitment to quality.	GOV QRe-5.04

# Relevant Ethical Requirements

**Table 1: Required Quality Objectives – Relevant Ethical Requirements**

QO#	Ref:	Quality Objectives
RER QO-1	QM sec. 10, par. .30a	The firm and its personnel i. understand the relevant ethical requirements to which the firm and the firm’s engagements are subject. ii. fulfill their responsibilities in relation to the relevant ethical requirements to which the firm and the firm’s engagements are subject.
RER QO-2	QM sec. 10, par. .30b	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 ii. fulfill their responsibilities in relation to the relevant ethical requirements that apply to them.

**Table 2: Potential Quality Risks – Relevant Ethical Requirements**

QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk
RER QO-1	QM sec 10, par. .30a	The firm and its personnel i. understand the relevant ethical requirements to which the firm and the firm’s engagements are subject, and ii. fulfill their responsibilities in relation to the relevant ethical requirements to which the firm and the firm’s engagements are subject.			
RER QO-1	RER QRi-1	I (or per-diem personnel) do not understand the relevant ethical requirements to which the firm and the firm’s engagements are subject.	Choose an item.	Choose an item.	Choose an item.
RER QO-1	RER QRi-2	I (or per-diem personnel) fail to fulfill responsibilities in relation to the relevant ethical requirements to which the firm and the firm’s engagements are subject.	Choose an item.	Choose an item.	Choose an item.
RER QO-1	RER QRi-3	I do not receive, investigate, or resolve complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements, or non-compliance with the firm’s policies or procedures established in accordance with the firm’s SOQM.	Choose an item.	Choose an item.	Choose an item.
RER QO-1	RER QRi-4	Consultation and evaluation of identified independence matters results in an incorrect conclusion.	Choose an item.	Choose an item.	Choose an item.
RER QO-1	RER QRi-5	Per-diem personnel are hesitant to communicate relevant information to me about their compliance with relevant ethical requirements due to fear of reprisals.	Choose an item.	Choose an item.	Choose an item.
RER QO-1	RER QRi-6	I (or any per-diem personnel) do not identify, communicate, evaluate, or report ethical breaches.	Choose an item.	Choose an item.	Choose an item.
RER QO-1	RER QRi-7	Independence and objectivity are impaired due to a familiarity threat.	Choose an item.	Choose an item.	Choose an item.
RER QO-1	RER QRi-8	Independence may be influenced by gifts from management or the client.	Choose an item.	Choose an item.	Choose an item.
RER QO-1	RER QRi-9	Unpaid fees for professional services previously rendered to an attest client may create self-interest, undue influence, or advocacy threats to compliance with the “Independence Rule” (ET sec. 1.200.001) of the AICPA Code of Professional Conduct.	Choose an item.	Choose an item.	Choose an item.
RER QO-1	RER QRi-10	I (or per-diem personnel) do not timely identify, evaluate, and address noncompliance or threats to compliance with regulatory requirements.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
RER QO-2	QM sec. 10, par. 30b	Others, including the network, network firms, individuals in the network or network firms, or service providers, who are subject to the relevant ethical requirements to which the firm and the firm's engagements <ul style="list-style-type: none"> <li>i. understand the relevant ethical requirements that apply to them, and</li> <li>i. fulfill their responsibilities in relation to the relevant ethical requirements that apply to them.</li> </ul>			
RER QO-2	RER QRI-11	Others who are subject to the relevant ethical requirements to which the firm and the firm's engagements are subject do not understand the relevant ethical requirements that apply to them.	Choose an item.	Choose an item.	Choose an item.
RER QO-2	RER QRI-12	Others who are subject to the relevant ethical requirements to which the firm and the firm's engagements are subject do not fulfill their responsibilities in relation to the relevant ethical requirements that apply to them.	Choose an item.	Choose an item.	Choose an item.

**Table 3: Required and Suggested Quality Responses – Relevant Ethical Requirements**

QRe#	Quality Response	Note, Tip, or Warning
<b>Relevant Ethical Requirements</b>		
<b>RER QRe-1</b>	<b>Policy: The firm and its personnel comply with relevant ethical requirements.</b>	<b>TIP:</b> Relevant ethical requirements are those in regulations, interpretations, and rules of the AICPA, state CPA societies, state boards of accountancy, state statutes, the U.S. Government Accountability Office (GAO), and any other applicable regulators.
<b>RER QRe-1.01</b>	I am responsible for staying informed on relevant ethical requirements; providing guidance; answering questions; monitoring compliance; and resolving matters with respect to independence, integrity, and objectivity.	<b>TIP:</b> The AICPA’s Ethics Hotline can be reached at 877.777.7077 or <a href="mailto:ethics@aicpa.org">ethics@aicpa.org</a> . The AICPA Ethics Tools and Aids, including the Plain English Guide to Independence, can be found at <a href="https://pub.aicpa.org/codeofconduct/Ethics.aspx">https://pub.aicpa.org/codeofconduct/Ethics.aspx</a> .
<b>RER QRe-1.02</b>	Access to current guidance materials regarding the applicable independence, integrity, and objectivity requirements is available to all personnel through [ <i>identify how, for example, through subscription service or via the AICPA’s website</i> ].	
<b>RER QRe-1.03</b>	I document the resolution of ethical matters when consultation has occurred, including consultation of professional literature or the AICPA Ethics Hotline.	
<b>RER QRe-1.04</b>	The firm meets all the requirements of the “Nonattest Services” interpretation ( <a href="#">ET sec. 1.295</a> ), and the requirements of other regulators, as applicable, when providing nonattest services (such as bookkeeping, financial statement preparation, and tax services) to clients for whom the firm also performs an audit, review, compilation, or attestation engagement.	<b>WARNING:</b> Peer reviewers will ask for documentation of compliance, including documentation that the client has suitable skills, knowledge, and experience to accept responsibility.
<b>RER QRe-1.05</b>	I have established and followed a process for identifying all services performed for each client and evaluating, at the attest engagement level, whether nonattest services are provided that might impair independence. [ <i>Describe the process.</i> ]	<b>WARNING:</b> As a firm gets larger, it may be more difficult for the firm to track what services are being performed for every client in order to determine that independence is not being impaired.

QRe#	Quality Response	Note, Tip, or Warning
<b>Relevant Ethical Requirements</b>		
<b>RER QRe-1.06</b>	<p>I maintain a current list of</p> <ul style="list-style-type: none"> <li>• all entities with which firm personnel are prohibited from having a financial or business relationship and</li> <li>• all activities the firm is prohibited from performing, as defined in the firm's independence policies.</li> </ul>	<b>NOTE:</b> Examples of prohibited activities include providing certain valuation and IT services to an audit client. See the rules of specific standard setters to determine the extent and relevance of any prohibition.
<b>RER QRe-2</b>	<b>Policy: I communicate independence requirements to per-diem firm personnel and, when applicable, others subject to them.</b>	<b>NOTE:</b> Per-diem personnel are firm personnel.
<b>RER QRe-2.01</b>	I make per-diem personnel aware of financial, family, business, and other relationships that are prohibited by applicable requirements.	<b>WARNING:</b> Your firm's system may need to take the existence of related entities into account.
<b>RER QRe-2.02</b>	I remind per-diem personnel of independence considerations for regulated industries.	<b>WARNING:</b> Regulators often have more restrictive independence requirements. For example, many regulators prohibit the CPA's involvement in the preparation of financial statements and define "preparation" very broadly. Know your industry and its regulatory requirements.
<b>RER QRe-2.03</b>	I remind per-diem personnel to avoid behavior that might be perceived as impairing their independence or objectivity, as necessary and at least annually.	
<b>RER QRe-2.04</b>	I inform per-diem personnel of the types of financial or other relationships that may impair independence and that may be prohibited.	
<b>RER QRe-2.05</b>	I take independence and ethics training [ <i>specify period, such as annually</i> ]. Such training covers the independence and ethics requirements of all applicable regulators.	<b>WARNING:</b> The state-specific ethics course required by many states for licensure may not be sufficient for the needs of your practice, and you may have to supplement that.
<b>RER QRe-2.06</b>	The firm has clear and concise written independence guidance covering relationships and activities that impair independence, including investments, loans, brokerage accounts, business relationships, employment relationships, and fee arrangements.	

QRe#	Quality Response	Note, Tip, or Warning
<b>Relevant Ethical Requirements</b>		
<b>RER QRe-3</b>	<b>Policy: I evaluate threats to independence and objectivity, including the familiarity threat that may be created by using the same senior personnel on an audit or attest engagement over a long period of time. The firm takes appropriate action to eliminate them or reduce them to an acceptable level by applying safeguards.</b>	
<b>RER QRe-3.01</b>	New per-diem personnel assigned to the engagement are encouraged to bring a fresh perspective.	<b>WARNING:</b> This procedure is effective only when you have the appropriate attitude.
<b>RER QRe-3.02</b>	I consider the significance of each client to the firm. In broad terms, the significance of a client to a firm refers to relationships that could diminish a practitioner’s objectivity and independence in performing attest services. In determining the significance of a client, I consider (a) the amount of time I devote to the engagement, and (b) the effect that losing the client would have on my practice.	
<b>RER QRe-3.03</b>	When a relationship or circumstance that may create threats to compliance with the rules is identified, I perform procedures to evaluate threats and apply safeguards (using the Conceptual Framework Toolkit for Members in Public Practice).	<b>TIP:</b> The Conceptual Framework Toolkit for Members in Public Practice is available at no charge at <a href="https://us.aicpa.org/content/dam/aicpa/interestareas/professionalethics/resources/downloadabledocuments/toolkitsandaids/conceptual-framework-toolkit-for-members-in-public-practice-final.pdf">https://us.aicpa.org/content/dam/aicpa/interestareas/professionalethics/resources/downloadabledocuments/toolkitsandaids/conceptual-framework-toolkit-for-members-in-public-practice-final.pdf</a> .
<b>RER QRe-3.04</b>	I require per-diem personnel to promptly notify me of circumstances and relationships that create a threat to independence so that appropriate action can be taken.	
<b>RER QRe-3.05</b>	I consult with individuals outside the firm on independence, integrity, or objectivity concerns that research has not clearly resolved.	<b>WARNING:</b> Don’t hesitate to consult; if you ask only when you are sure there is a problem, problems may get overlooked. Not wanting to know the answer to an independence question is a good indication that consultation is needed. The AICPA’s Ethics Hotline can be reached at 877.777.7077 or <a href="mailto:ethics@aicpa.org">ethics@aicpa.org</a> ; the GAO’s Yellow Book Technical Assistance can be reached at 202.512.9535 or <a href="mailto:yellowbook@gao.gov">yellowbook@gao.gov</a> .

QRe#	Quality Response	Note, Tip, or Warning
<b>Relevant Ethical Requirements</b>		
<b>RER QRe-4</b>	<b>Policy: Per-diem personnel are required to notify the firm of breaches of relevant ethical requirements, including independence requirements, and I take appropriate actions to resolve such situations.</b>	<b>NOTE:</b> This is a required response. [QM sec. 10, par. .35a(ii)]
<b>RER QRe-4.01</b>	All per-diem personnel are required to notify me of any potential activities involving themselves, their spouses, or their dependents that might impair independence or violate ethics rules, including services provided to entities with which firm personnel are prohibited from having a business relationship.	
<b>RER QRe-4.02</b>	I determine the need for safeguards for engagements when the familiarity threat exists on an audit, review, or attestation engagement.	<b>TIP:</b> A familiarity threat may exist when, for example, you have performed the engagement for the entity for an extended period of time, such as five years or more. The safeguard may be having an engagement quality control review or inspection performed periodically by someone not otherwise involved with the engagement.
<b>RER QRe-4.03</b>	I take the required corrective actions.	<b>NOTE:</b> This is a required response. [QM sec. 10, par. .35a(ii)]
<b>RER QRe-4.04</b>	I periodically [ <i>identify time period</i> ] review unpaid fees from clients to ascertain whether any outstanding amounts may impair the firm's independence.	See paragraphs .01–.02 of the “Unpaid Fees” interpretation (ET section 1.230.010) of the AICPA Code of Professional Conduct.
<b>RER QRe-5</b>	<b>Policy: I do not accept or withdraw from the engagement if effective safeguards to reduce threats to independence to an acceptable level cannot be applied.</b>	<b>WARNING:</b> Threats to independence may arise during the engagement (for example, when the firm is asked to perform nonattest services during the course of an attest engagement or the assessment of the client's knowledge, skills, and experience changes). Evaluate threats and apply safeguards BEFORE performing the procedures.

QRe#	Quality Response	Note, Tip, or Warning
<b>Relevant Ethical Requirements</b>		
<b>RER QRe-5.01</b>	I consult with legal counsel and other parties, if necessary, when I believe that effective safeguards to reduce threats to independence to an acceptable level cannot be applied.	<b>NOTE:</b> The client's needs may be met with a different service that doesn't require independence.
<b>RER QRe-5.02</b>	I do not accept or withdraw from the engagement when withdrawal is possible under applicable law or regulation, or when effective safeguards to reduce threats to independence to an acceptable level cannot be applied.	
<b>RER QRe-6</b>	<b>Policy: I obtain written confirmation, upon hire and at least annually, of compliance with the firm's policies and procedures regarding independence from all per-diem personnel required to be independent by relevant requirements.</b>	<b>NOTE:</b> This is a required response. [QM sec. 10, par. .35b]
<b>RER QRe-6.01</b>	I obtain written representations from per-diem personnel, upon hire and on an annual basis, stating that they have read the firm's independence, integrity, and objectivity policies; understand the applicability of those policies to their activities; and have complied with the requirements of those policies since their last representation. Personnel are required to review the most current list of all entities with which firm personnel are prohibited from having a business relationship prior to providing the written representation.	
<b>RER QRe-6.02</b>	I review independence compliance files for completeness and written representations, and resolve reported exceptions.	<b>NOTE:</b> This is a required response. [QM sec. 10, par. .21c]
<b>RER QRe-6.03</b>	On each engagement, I sign a step in the engagement program attesting to compliance with independence requirements that apply to the engagement.	<b>NOTE:</b> This procedure necessitates that each engagement include a program step requiring sign-off for compliance with independence regulations, whether in the acceptance/continuance form or other phase of the engagement.

QRe#	Quality Response	Note, Tip, or Warning
<b>Relevant Ethical Requirements</b>		
<b>RER QRe-7</b>	<b>Policy: When another firm performs part of the engagement, I confirm the independence of the other firm and adherence to other relevant ethical requirements.</b>	
<b>RER QRe-7.01</b>	Written confirmations are obtained regarding the other firm’s independence with respect to audit engagements and either written or oral confirmations are obtained for review or attestation engagements. Oral confirmations are documented.	
<b>RER QRe-8</b>	<b>Policy: I have procedures for receiving complaints about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements or noncompliance with the firm’s policies and procedures, investigate the complaints, and resolve them.</b>	<b>NOTE:</b> This is a required response. [QM sec. 10, par. .35c]
<b>RER QRe-8.01</b>	Per-diem personnel are informed that they can raise concerns, orally or in writing, about work that may not have been performed in accordance with professional standards and applicable legal and regulatory requirements.	
<b>RER QRe-8.02</b>	A survey is circulated to clients annually to inquire about services rendered and to collect other feedback.	<b>TIP:</b> Consider debriefing with the client to receive feedback on the services provided.
<b>RER QRe-8.03</b>	I consider all complaints raised, consult externally as appropriate, and document their resolution.	
<b>RER QRe-8.04</b>	I have procedures for tracking complaints received and for tracking progress made for their investigation and resolution.	
<b>RER QRe-8.05</b>	Resolutions to complaints are documented and communicated to all relevant parties.	

**Table 4: Example of Evaluated Quality Risks and Linked Responses – Relevant Ethical Requirements**

The following table provides examples of evaluated quality risks and linked responses to each quality risk. Please note that this is for illustrative purposes only. Your firm may identify other risks, may evaluate the likelihood and impact of those risks differently, and may choose other responses. The examples are not complete; if all you do is copy and paste these examples, your SOQM will not provide reasonable assurance of achieving its objectives.

The following examples illustrate the documentation of establishing quality objectives, evaluating quality risks, and designing the firm’s responses to those quality risks. This is not a complete picture of an established SOQM. The implementation, evaluation, and monitoring of the system will need to be documented and established, as well.

Relevant Ethical Requirements							
RER QO-1		The firm and its personnel i. understand the relevant ethical requirements to which the firm and the firm’s engagements are subject, and ii. fulfill their responsibilities in relation to the relevant ethical requirements to which the firm and the firm’s engagements are subject.					
QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk	Quality Response	QRe#
RER QO-1	RER QRi-3	I do not receive, investigate, or resolve complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements or noncompliance with the firm’s policies or procedures established in accordance with the firm’s system of quality management.	Low	High	Yes	I have procedures for receiving complaints about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements or noncompliance with the firm’s policies and procedures, investigate the complaints, and resolve them.	RER QRe-8
RER QO-1	RER QRi-3	I do not receive, investigate, or resolve complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements or noncompliance with the firm’s policies or procedures established in accordance with the firm’s SOQM.	Medium	High	Yes	I consider all complaints raised, consult externally as appropriate, and document their resolution.	RER QRe-8.03
RER QO-1	RER QRi-4	Consultation and evaluation of identified independence matters results in an incorrect conclusion.	Low	High	Yes	I document the resolution of ethical matters when consultation has occurred, including consultation of professional literature or the AICPA Ethics Hotline.	RER QRe-1.03

# Acceptance and Continuance of Client Relationships and Specific Engagements

**Table 1: Required Quality Objectives – Acceptance and Continuance of Client Relationships and Specific Engagements**

QO #	Ref:	Quality Objectives
EAC QO-1	QM sec. 10, par. .31a(i)	Firm judgments about whether to accept or continue a client relationship or specific engagement are appropriate based on information obtained about the nature and circumstances of the engagement and the integrity and ethical values of the client (including management and, when appropriate, those charged with governance) that is sufficient to support such judgments.
EAC QO-2	QM sec. 10, par. .31a(ii)	Firm judgments about whether to accept or continue a client relationship or specific engagement are appropriate based on the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.
EAC QO-3	QM sec. 10, par. .31b	The financial and operational priorities of the firm do not lead to inappropriate judgments about whether to accept or continue a client relationship or specific engagement.

**Table 2: Required Quality Objectives With Potential Quality Risks – Acceptance and Continuance of Client Relationships and Specific Engagements**

QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk
EAC QO-1	QM sec. 10, par. .31a(i)	Firm judgments about whether to accept or continue a client relationship or specific engagement are appropriate based on information obtained about the nature and circumstances of the engagement and the integrity and ethical values of the client (including management and, when appropriate, those charged with governance) that is sufficient to support such judgments.			
EAC QO-1	EAC QRi-1	I do not obtain information about the nature and circumstances of the engagement and the client (including management and, when appropriate, those charged with governance) that is sufficient to support judgments about client acceptance or continuance.	Choose an item.	Choose an item.	Choose an item.
<b>Engagement Nature</b>					
EAC QO-1	EAC QRi-2	I do not understand the industry of the entity for which the engagement is being undertaken, as well as the relevant regulatory factors.	Choose an item.	Choose an item.	Choose an item.
EAC QO-1	EAC QRi-3	I do not understand the nature of the entity, for example, its operations, organizational structure, ownership and governance, its business model and how it is financed. (Information gathering efforts do not address all relevant information or subsidiaries or affiliates).	Choose an item.	Choose an item.	Choose an item.
EAC QO-1	EAC QRi-4	I fail to obtain or understand the nature and circumstances of the engagement.	Choose an item.	Choose an item.	Choose an item.
<b>Integrity</b>					
EAC QO-1	EAC QRi-5	I do not adequately evaluate the integrity and ethical values of the appropriate owners, key management, related parties, and those charged with governance.	Choose an item.	Choose an item.	Choose an item.
<b>Inaccurate or Incomplete Information</b>					
EAC QO-1	EAC QRi-6	I do not properly evaluate or consider information that was obtained from the acceptance or continuance process.	Choose an item.	Choose an item.	Choose an item.
EAC QO-1	EAC QRi-7	Information obtained during the acceptance or continuance process of a client relationship or specific engagement is not sufficient, is not derived from credible sources, or does not support the firm's judgment about the integrity and ethical values of the client.	Choose an item.	Choose an item.	Choose an item.

QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk
EAC QO-1	QM sec. 10, par. .31a(i)	Firm judgments about whether to accept or continue a client relationship or specific engagement are appropriate based on information obtained about the nature and circumstances of the engagement and the integrity and ethical values of the client (including management and, when appropriate, those charged with governance) that is sufficient to support such judgments.			
EAC QO-1	EAC QRi-8	I start work on a client engagement before acceptance or continuance is approved.	Choose an item.	Choose an item.	Choose an item.
EAC QO-1	EAC QRi-9	I start work on a client engagement before the client has agreed to the terms of the engagement.	Choose an item.	Choose an item.	Choose an item.
EAC QO-1	EAC QRi-10	I do not consider information obtained subsequent to the approved acceptance of the client or engagement.	Choose an item.	Choose an item.	Choose an item.
EAC QO-1	EAC QRi-11	I accept or continue an engagement when the terms of engagement are not clear or properly agreed upon, which may lead to liability or damage to my reputation.	Choose an item.	Choose an item.	Choose an item.
EAC QO-1	EAC QRi-12	I do not identify threats, such as nonattest services, to independence or other ethical requirements.	Choose an item.	Choose an item.	Choose an item.
EAC QO-1	EAC QRi-13	My investigation research tool does not provide accurate results or is limited in its ability. For example, the tool searches only within the United States.	Choose an item.	Choose an item.	Choose an item.
EAC QO-1	EAC QRi-14	I do not apply all client acceptance procedures to all clients from an office acquisition or merger.	Choose an item.	Choose an item.	Choose an item.
EAC QO-1	EAC QRi-15	I (or per-diem personnel) do not take appropriate action when I become aware of information that may have caused me to decline the client relationship or specific engagement, had I known that information prior to accepting or continuing such relationship.	Choose an item.	Choose an item.	Choose an item.

QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk
EAC QO-2	QM sec. 10, par. .31a(ii)	Firm judgments about whether to accept or continue a client relationship or specific engagement are appropriate based on the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.			

### Ability to Perform – Competency and Capacity

EAC QO-2	EAC QRi-16	I do not understand the nature of the underlying subject matter and the applicable criteria by which it must be evaluated.	Choose an item.	Choose an item.	Choose an item.
EAC QO-2	EAC QRi-17	I do not identify or understand professional standards or applicable legal and regulatory requirements that include specific provisions that need to be addressed before accepting or continuing a client relationship or specific engagement.	Choose an item.	Choose an item.	Choose an item.
EAC QO-2	EAC QRi-18	I do not evaluate the availability of appropriate resources that would be needed to perform the engagement. This would include consideration of core engagement team resources, engagement quality (EQ) review assignment, need for specialists, or other experts or IT system requirements.	Choose an item.	Choose an item.	Choose an item.
EAC QO-2	EAC QRi-19	I inappropriately accept or continue a client relationship or specific engagement when I do not have sufficient staffing capacity, and I cannot create the required capacity through talent acquisition or other means.	Choose an item.	Choose an item.	Choose an item.
EAC QO-2	EAC QRi-20	I inappropriately accept a client relationship or specific engagement when I do not have adequate competency or technical training to perform the engagement.	Choose an item.	Choose an item.	Choose an item.

### Operational Constraints

EAC QO-2	EAC QRi-21	I accept or continue an engagement with unreasonable final issuance expectations or insufficient staffing to complete the engagement.	Choose an item.	Choose an item.	Choose an item.
EAC QO-2	EAC QRi-22	I agree to work not included in the original scope without following the firm's procedures for changes in work scope.	Choose an item.	Choose an item.	Choose an item.

QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk
EAC QO-2	QM sec. 10, par. .31a(ii)	Firm judgments about whether to accept or continue a client relationship or specific engagement are appropriate based on the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.			
<b>Ability to Perform – Regulatory and Legal</b>					
EAC QO-2	EAC QRi-23	My acceptance of a client results in the violation of an ethical or legal requirement (such as independence or conflict of interest).	Choose an item.	Choose an item.	Choose an item.
EAC QO-2	EAC QRi-24	I do not evaluate whether I and per-diem personnel are able to fulfill our responsibilities in relation to the relevant ethical requirements.	Choose an item.	Choose an item.	Choose an item.
EAC QO-2	EAC QRi-25	I fail to timely evaluate or revise acceptance or continuance policies and procedures for client relationships or specific engagements that pose threats to compliance with rules and regulations arising from (a) changes in independence rules or interpretations and (b) new laws or regulations affecting such client relationships or specific engagements.	Choose an item.	Choose an item.	Choose an item.
EAC QO-2	EAC QRi-26	I do not recognize when I am obligated by law or regulation to accept or continue a client relationship or specific engagement, nor understand the appropriate procedures to follow in such circumstances.	Choose an item.	Choose an item.	Choose an item.
EAC QO-2	EAC QRi-27	I accept or continue an engagement without appropriately identifying and evaluating the effect of nonattest services on firm independence.	Choose an item.	Choose an item.	Choose an item.
EAC QO-2	EAC QRi-28	I accept or continue a client relationship or specific engagement when I do not have the ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.	Choose an item.	Choose an item.	Choose an item.

QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk
EAC QO-3	QM sec. 10, par. .31b	The financial and operational priorities of the firm do not lead to inappropriate judgments about whether to accept or continue a client relationship or specific engagement.			
<b>Firm Compensation and Goals</b>					
EAC QO-3	EAC QRi-29	My financial and operational priorities lead to inappropriate judgments about whether to accept or continue a client relationship or specific engagement.	Choose an item.	Choose an item.	Choose an item.
EAC QO-3	EAC QRi-30	The proposed fee is materially inadequate for the time and resources required to perform a quality and profitable engagement.	Choose an item.	Choose an item.	Choose an item.
EAC QO-3	EAC QRi-31	The firm inappropriately accepts a client or engagement because large fees, financial benefit, or opportunity for the firm outweigh concerns over risks relating to, for example, resources, competencies, management integrity, or other issues.	Choose an item.	Choose an item.	Choose an item.

**Table 3: Required and Suggested Quality Responses – Acceptance and Continuance of Client Relationships and Specific Engagements**

QRe#	Quality Response	Note, Tip, or Warning
Acceptance and Continuance of Client Relationships and Specific Engagements		
		<p><b>WARNING:</b> A firm’s client acceptance and continuance policies represent a key element in mitigating litigation and business risk. Consider both the client’s integrity and reputation and your firm’s expertise and ability to meet the client’s needs. Both of these factors can affect the firm’s reputation and involvement in litigation.</p>
EAC QRe-1	<p><b>Policy: I consider the risk associated with providing professional services in particular circumstances, including evaluating factors that have a bearing on management’s integrity. I only accept or continue engagements and client relationships when I conclude that the risk is at an acceptable level.</b></p>	<p><b>NOTE:</b> The risk is that (a) the firm and its personnel will fail to comply with professional standards and applicable legal and regulatory requirements, or (b) reports issued by the firm will not be appropriate in the circumstances.</p>
EAC QRe-1.01	<p>I communicate with the predecessor auditor as required, and consider communicating with the predecessor accountant when recommended, by professional standards. This communication includes inquiries regarding the nature of any disagreements and whether there is evidence of “opinion-shopping.”</p>	<p><b>NOTE:</b> Communicating with the predecessor auditor is required by generally accepted auditing standards. Other professional standards may require or recommend communicating with the predecessor accountant. Best practice is to communicate even if not required.</p>
EAC QRe-1.02	<p>I obtain and evaluate relevant information before accepting or continuing any client, such as</p>	<p><b>NOTE:</b> This information directly relates to the risk that the firm will fail to perform and report in conformity with applicable professional standards. For smaller clients, this assessment may be quite simple. The results of this assessment are used in determining whether to accept the engagement, and if so, how the engagement is conducted.</p>
	<ul style="list-style-type: none"> <li>• the nature and purpose of the services to be provided and management’s understanding thereof.</li> <li>• the identity of the client’s principal owners, key management, related parties, and those charged with its governance.</li> </ul>	
	<ul style="list-style-type: none"> <li>• the nature of the client’s operations, including its business practices, from sources such as annual reports, interim financial statements, reports to and from regulators, income tax returns, and credit reports.</li> </ul>	<p><b>TIP:</b> Review the state regulatory website for state-specific regulations that apply to your client— this could also affect supplemental information in your engagement letter.</p>

QRe#	Quality Response	Note, Tip, or Warning
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## Acceptance and Continuance of Client Relationships and Specific Engagements

- information obtained from inquiries of third parties about the client, its principal owners, key management, and those charged with governance that may have a bearing on evaluating the client. Examples of such third parties are bankers, factors, legal counsel, credit services, investment bankers, underwriters, and other members of the financial or business community who may have applicable knowledge.
- information, from discussions with the client and inquiries of others, concerning the attitude of the client’s principal owners, key management, and those charged with its governance toward such matters as aggressive interpretation of accounting standards, compliance with laws and regulations, and internal control over financial reporting
- emerging risks (for example, cryptocurrency, regulatory changes, or geopolitical events).

**EAC QRe-1.03** I conduct a background check of the business, its officers, and the persons in question by using resources available on the internet and evaluate the information obtained regarding management’s integrity. An investigative firm is used when I am unable to obtain sufficient information about the prospective client after completing the preceding steps or when I become aware that there is an indication that management or someone affiliated with the prospective client may be less than reputable.

**EAC QRe-1.04** I evaluate the risk of providing services to significant clients or to other clients for which the firm’s objectivity may be, or appears to be, impaired. I take appropriate safeguards if necessary or if safeguards cannot reduce the threat to objectivity and independence to an acceptably low level, I do not accept the engagement.

**NOTE:** In broad terms, the significance of a client to a firm refers to relationships that could diminish a practitioner’s objectivity and independence in performing attest services. In determining the significance of a client to a sole practitioner, the amount of time devoted to the engagement and the effect of losing the client are relevant.

**EAC QRe-1.05** I consider the timing of the acceptance of the engagement and whether that affects my ability to perform all procedures necessary for the engagement (for example, inventory observation, both beginning and ending.)

QRe#	Quality Response	Note, Tip, or Warning
<b>Acceptance and Continuance of Client Relationships and Specific Engagements</b>		
<b>EAC QRe-2</b>	<b>Policy: I evaluate whether the engagement can be completed with professional competence; undertake only those engagements for which I have the capabilities, resources, and professional competence to complete; and evaluate, at the end of specific periods or upon the occurrence of certain events, whether the relationship should be continued.</b>	<b>WARNING:</b> This policy and its related procedures are KEY to managing the risk that the firm will fail to perform and report in conformity with applicable professional standards.
<b>EAC QRe-2.01</b>	If the engagement is for a level of service that I am not currently providing (for example, reviews or audits), I consider the implications for obtaining the necessary competency and the implications for independence requirements and peer review.	
<b>EAC QRe-2.02</b>	I define <i>high-risk engagements</i> based on the characteristics of my firm. I consider the following criteria in determining whether the engagement is high risk <i>[list criteria, such as the following]</i> :  <ul style="list-style-type: none"> <li>• Whether the client is in a specialized industry – that is, an industry for which there is an AICPA Audit and Accounting Guide, or the engagement is subject to governmental auditing standards – and the extent of the firm’s experience in this area.</li> </ul>	<b>NOTE:</b> High-risk engagements, by their nature, require more resources.  <b>WARNING:</b> “You don’t know what you don’t know” when performing an engagement in a specialized industry for which your firm does not have expertise. Specialized industries require an ongoing investment in training to obtain and maintain the necessary competence.
		<b>List of AICPA Audit and Accounting Guides for specific industries:</b> <ul style="list-style-type: none"> <li>• Airlines</li> <li>• Construction Contractors</li> <li>• Employee Benefit Plans</li> <li>• Investment Companies</li> <li>• Life and Health Insurance Entities</li> <li>• Not-for-Profit Entities</li> <li>• Property and Liability Insurance Entities</li> <li>• State and Local Governments</li> <li>• Brokers and Dealers in Securities</li> <li>• Depository and Lending Institutions: Banks and Savings Institutions, Credit Unions, Finance Companies, and Mortgage Companies</li> <li>• Entities With Oil and Gas Producing Activities</li> <li>• Gaming</li> <li>• Health Care Entities</li> <li>• <i>Government Auditing Standards</i> and Single Audits</li> </ul>

QRe#	Quality Response	Note, Tip, or Warning
<b>Acceptance and Continuance of Client Relationships and Specific Engagements</b>		
	<ul style="list-style-type: none"> <li>• New industry for the firm.</li> </ul>	<p><b>WARNING:</b> Accepting an engagement in a new industry requires the firm to learn that industry. Hiring experienced staff, more consultation, performing an EQ review – these may all be necessary and come at a cost.</p>
	<ul style="list-style-type: none"> <li>• New or specialized accounting pronouncements apply to the client.</li> <li>• New professional standards apply to the firm relating to the engagements.</li> </ul>	
	<ul style="list-style-type: none"> <li>• Engagements that require an inordinate amount of time to complete relative to the available resources of the firm.</li> </ul>	<p><b>NOTE:</b> Engagements like this can affect the firm’s other engagements.</p>
	<ul style="list-style-type: none"> <li>• The existence of conditions such as aggressive earnings management, unreliable processes for developing accounting estimates or questionable estimates by management, and questions regarding the entity’s ability to continue as a going concern.</li> <li>• Emerging risks in existing clients (for example, cryptocurrency, regulatory changes, or geopolitical events).</li> <li>• The entity is in development stage.</li> </ul>	
<b>EAC QRe-2.03</b>	<p>I accept engagements that meet the firm’s criteria as high risk only when I have, or am willing to make, the investment to acquire the necessary competency. I acknowledge that accepting a high-risk engagement may necessitate the use of external resources and that an EQ review will be performed by a suitably qualified external person.</p>	<p><b>WARNING:</b> An otherwise low-risk client might have transactions that are so risky that the firm may decide to not accept the engagement or apply safeguards addressed only at that risk.</p>
<b>EAC QRe-2.04</b>	<p>I evaluate whether I, and any other engagement team members, have, or can reasonably expect to obtain, the competency and capabilities necessary to perform the engagement, including relevant regulatory or reporting requirements.</p>	<p><b>WARNING:</b> The firm is required to have obtained the necessary knowledge and expertise before the report is issued to have reasonable assurance that the firm meets professional standards and that the report is appropriate. Best practice is to have that knowledge and expertise when planning the engagement, so you don’t have to go back at the end and identify what you didn’t know at the beginning.</p>
<b>EAC QRe-2.05</b>	<p>I determine the following before accepting an engagement:</p> <ul style="list-style-type: none"> <li>• I have sufficient technical resources available, including audit and accounting guides, and I have taken appropriate continuing professional education and training.</li> </ul>	

QRe#	Quality Response	Note, Tip, or Warning
Acceptance and Continuance of Client Relationships and Specific Engagements		
	<ul style="list-style-type: none"> <li>• Whether specialists will be needed and, if so, will be available.</li> </ul> <hr/> <ul style="list-style-type: none"> <li>• That individuals meeting the criteria and eligibility requirements to perform an EQ review are available when needed, for example, for engagements that meet the firm’s definition of <i>high risk</i>.</li> </ul>	<p><b>NOTE:</b> The QM standards require that the EQ review be performed at appropriate points during the engagement. Identifying the person who will perform the EQ review as soon as the need for an EQ review has been identified, even if it is prior to acceptance of the engagement, and agreeing on engagement terms, best allows for this. Delaying after the need is identified creates concern that an EQ reviewer will not be available and creates time pressure to identify an EQ reviewer by the appropriate point in the engagement (when the cost may be higher).</p>
	<ul style="list-style-type: none"> <li>• I am able to complete the engagement within the reporting deadline.</li> </ul>	
<b>EAC QRe-2.06</b>	<p>The firm obtains relevant information to determine whether the relationship should be continued, and the firm evaluates the client continuance decision at least annually [<i>insert timing, for example, a preliminary decision at the end of the current-year engagement for (every client/high-risk clients) as part of finalizing the current-year engagement, and a final evaluation before the engagement letter is sent for the next engagement</i>].</p>	<p><b>TIP:</b> The benefit to considering whether to continue the engagement and client relationship at the end of the current engagement is that the memory is fresh in terms of client integrity and issues encountered, and there may be less financial pressure at this time.</p>

QRe#	Quality Response	Note, Tip, or Warning
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## Acceptance and Continuance of Client Relationships and Specific Engagements

### EAC QRe-2.07

The following are conditions that I consider in evaluating whether to continue an engagement or client relationship [*describe conditions, such as the following*]:

**WARNING:** Do not put your clients on “auto-renew.” Continuance of clients is an active decision and should be considered carefully without simply “defaulting” to the previous year’s determination.

- The existence of conditions such as
  - aggressive earnings management,
  - unreliable processes for developing accounting estimates or questionable estimates by management, or
  - questions regarding the entity’s ability to continue as a going concern.
- The entity is in the development stage.
- The client is delinquent in paying fees. (This may also affect my independence.)
- I am unable to meet the client’s deadlines.
- The services required have grown beyond my firm’s ability to deliver (scope creep).
- I am no longer willing to make the investment required to maintain competency.
- I am unable to obtain the necessary resources to carry out the engagement, such as a person to perform an EQ review or replace the loss of key personnel.
- Internal or external inspections have indicated deficiencies in the execution of the engagement (or similar engagements) and I am unable to mitigate the deficiencies.
- The client has ignored prior recommendations, such as those that address deficiencies in internal control.

### EAC QRe-2.08

When triggering events occur, the firm reevaluates the decision to accept or continue an engagement or client relationship.

The following are examples of such triggering events:

- Significant changes in the client, such as a major change in ownership, senior client personnel, directors, advisers, the nature of the business, or its financial stability.

QRe#	Quality Response	Note, Tip, or Warning
<b>Acceptance and Continuance of Client Relationships and Specific Engagements</b>		
	<ul style="list-style-type: none"> <li>• Changes in the nature or scope of the engagement, such as               <ul style="list-style-type: none"> <li>– requests for additional services,</li> <li>– a request to step down from an audit to a review engagement, or</li> <li>– an initial public offering.</li> </ul> </li> </ul> <hr/> <ul style="list-style-type: none"> <li>• The decision to discontinue services to clients in a particular industry.</li> </ul>	<p><b>NOTE:</b> The procedure is not to decline the engagement when a request for a change is made but to evaluate the client’s reasons for the request and then determine whether to accept or decline.</p>
<b>EAC QRe-2.09</b>	I evaluate the information obtained regarding the client or engagement, make the acceptance or continuance decision, and document the evaluation or conclusion in a memorandum or by signing off next to the relevant item in a practice aid.	<b>NOTE:</b> Acceptance and continuance decisions are iterative and are made before each engagement is accepted and as necessary when circumstances change.
<b>EAC QRe-2.10</b>	I document evidence of consideration and approval of engagement acceptance (or continuance) in the planning section of the engagement documentation.	<b>NOTE:</b> The AICPA PCPS Client Acceptance Evaluation Tool and Client Continuance Evaluation Tool are free tools available at <a href="https://www.aicpa-cima.com/resources/landing/trusted-client-adviser-toolbox">https://www.aicpa-cima.com/resources/landing/trusted-client-adviser-toolbox</a> .
<b>EAC QRe-3</b>	<b>Policy: I have established policies and procedures for circumstances in which information becomes known subsequent to accepting or continuing a client relationship or specific engagement that might have affected my decision to accept or continue a client relationship or specific engagement.</b>	<b>NOTE:</b> This is a required response. [QM sec. 10, par. .35d(i)]
<b>EAC QRe-3.01</b>	<p>When I become aware of information that would have caused me to decline the engagement if the information had been available earlier, I consider the following:</p> <ul style="list-style-type: none"> <li>• Undertaking consultation with legal counsel</li> <li>• The professional and legal responsibilities that apply to the circumstances, including whether there is a requirement for me to continue the engagement or report to regulatory authorities</li> <li>• Discussing with the appropriate level of client’s management and those charged with governance</li> </ul> <hr/> <ul style="list-style-type: none"> <li>• Whether to withdraw from the engagement or from the client relationship</li> </ul>	<b>NOTE:</b> See procedures for withdrawal later in this document.

QRe#	Quality Response	Note, Tip, or Warning
<b>Acceptance and Continuance of Client Relationships and Specific Engagements</b>		
<b>EAC QRe-4</b>	<b>Policy: The firm obtains an understanding with the client regarding the services to be performed.</b>	<b>TIP:</b> Having an “evergreen” engagement letter, or an engagement letter that covers more than one year, exposes the firm to a variety of risks. If circumstances necessitate the use of a multi-year engagement letter, even when not required by the standards, best practice is to send a written letter annually confirming the existing terms and explaining any changes.
<b>EAC QRe-4.01</b>	I prepare a written engagement letter for each engagement, documenting the understanding with the client regarding the nature, scope, and limitations of the services to be performed.	
<b>EAC QRe-4.02</b>	I obtain the client’s signature on that letter before significant resources are committed to the engagement.	
<b>EAC QRe-4.03</b>	If the nature or scope of the engagement changes, I document the change in an addendum to the engagement letter that is sent to the client.	
<b>EAC QRe-5</b>	<b>Policy: I have established procedures on withdrawal from an engagement or from both the engagement and the client relationship, as follows:</b>	
<b>EAC QRe-5.01</b>	I consider whether there is a professional, regulatory, or legal requirement for the firm to remain in place or for the firm to report to regulatory authorities the withdrawal from the engagement, or from both the engagement and the client relationship, together with the reasons for the withdrawal. I consult with legal counsel of my insurance carrier if necessary.	<b>NOTE:</b> This is a required response. [QM sec. 10, par. .35d(ii)]
<b>EAC QRe-5.02</b>	When I am 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, I consider the following: <ul style="list-style-type: none"> <li>• The effect of the information on the performance of the engagement</li> <li>• Whether an EQ review should be performed.</li> </ul>	

QRe#	Quality Response	Note, Tip, or Warning
<b>Acceptance and Continuance of Client Relationships and Specific Engagements</b>		
<b>EAC QRe-5.03</b>	I consider whether there is a professional, regulatory, or legal requirement to report to regulatory authorities the withdrawal from the engagement, or from both the engagement and the client relationship, together with the reasons for the withdrawal.	
<b>EAC QRe-5.04</b>	I discuss with the appropriate level of the client’s management and those charged with its governance withdrawal from the engagement, or from both the engagement and the client relationship, if I determine that it is appropriate to withdraw.	
<b>EAC QRe-5.05</b>	I consider the implications for previous engagements with this client, including the need to withdraw previously issued reports.	
<b>EAC QRe-6</b>	<b>Policy: I document how issues relating to acceptance or continuance of client relationships were resolved.</b>	
<b>EAC QRe-6.01</b>	I document, in a memorandum to the engagement files, significant issues, consultations, conclusions, and the basis for the conclusions relating to acceptance or continuance of client relationships and specific engagements.	

#### Table 4: Example of Evaluated Risks and Linked Responses – Acceptance and Continuance of Client Relationships and Specific Engagements

The following table provides examples of evaluated quality risks and linked responses to each quality risk. Please note that this is for illustrative purposes only. Your firm may identify other risks, may evaluate the likelihood and impact of those risks differently, and may choose other responses. The examples are not complete; if all you do is copy and paste these examples, your SOQM will not provide reasonable assurance of achieving its objectives.

The following examples illustrate the documentation of establishing quality objectives, evaluating quality risks, and designing the firm’s responses to those quality risks. This is not a complete picture of an established SOQM. The implementation, evaluation, and monitoring of the system will need to be documented and established, as well.

Acceptance and Continuance of Client Relationships and Specific Engagements							
QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk	Quality Response	QRe#
EAC QO-1		Firm judgments about whether to accept or continue a client relationship or specific engagement are appropriate based on information obtained about the nature and circumstances of the engagement and the integrity and ethical values of the client (including management, and, when appropriate, those charged with governance) that is sufficient to support such judgments.					
EAC QO-1	EAC QRi-2	I do not understand the industry of the entity for which the engagement is being undertaken, as well as the relevant regulatory factors.	Low	High	Yes	I accept engagements that meet the firm’s criteria as high risk only when I have, or am willing to make, the investment to acquire the necessary competency. I acknowledge that accepting a high-risk engagement may necessitate the use of external resources and that an EQ review will be performed by a suitably qualified external person.	EAC QRe-2.03

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk	Quality Response	QRe#
EAC QO-1	EAC QRI-15	I (or per-diem personnel) do not take appropriate action when I become aware of information that may have caused me to decline the client relationship or specific engagement, had I known that information prior to accepting or continuing such relationship.	Low	High	Yes	I have established policies and procedures for circumstances in which information becomes known subsequent to accepting or continuing a client relationship or specific engagement that might have affected my decision to accept or continue a client relationship or specific engagement.	EAC QRe-3
EAC QO-1	EAC QRI-27	I accept or continue an engagement without appropriately identifying and evaluating the effect of nonattest services on firm independence.	Medium	Medium	Yes	I consider the risk associated with providing professional services in particular circumstances, including evaluating factors that have a bearing on management's integrity. I only accept or continue engagements and client relationships when I conclude that the risk is at an acceptable level.	EAC QRe-1
EAC QO-2	Firm judgments about whether to accept or continue a client relationship or specific engagement are appropriate based on the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.						
EAC QO-2	EAC QRI-28	I accept or continue a client relationship or specific engagement when I do not have the ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.	Medium	High	Yes	I evaluate whether the engagement can be completed with professional competence; undertake only those engagements for which I have the capabilities, resources, and professional competence to complete; and evaluate, at the end of specific periods or upon the occurrence of certain events, whether the relationship should be continued.	EAC QRe-2

# Engagement Performance

**Table 1: Required Quality Objectives – Engagement Performance**

QO #	Ref:	Quality Objectives
EP QO-1	QM sec. 10, par. .32a	Engagement teams understand and fulfill their responsibilities in connection with the engagements, including, as applicable, the overall responsibility of engagement partners for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement.
EP QO-2	QM sec. 10, par. .32b	The nature, timing, and extent of direction and supervision of engagement teams and review of the work performed is appropriate based on the nature and circumstances of the engagements and the resources assigned or made available to the engagement teams, and the work performed by less experienced engagement team members is directed, supervised, and reviewed by more experienced engagement team members.
EP QO-3	QM sec. 10, par. .32c	Engagement teams exercise appropriate professional judgment and, when applicable to the type of engagement, maintain professional skepticism.
EP QO-4	QM sec. 10, par. .32d	Consultation on difficult or contentious matters is undertaken and the conclusions agreed are implemented.
EP QO-5	QM sec. 10, par. .32e	Differences of opinion within the engagement team, or between the engagement team and the EQ reviewer or individuals performing activities within the firm's SOQM, are brought to the attention of the firm and resolved.
EP QO-6	QM sec. 10, par. .32f	Engagement documentation is assembled on a timely basis after the date of the engagement report and is appropriately maintained and retained to meet the needs of the firm and comply with law, regulation, relevant ethical requirements, or professional standards.

**Table 2: Required Quality Objectives and Potential Quality Risks – Engagement Performance**

QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk
<b>EP QO-1</b>	<b>QM sec. 10, par. .32a</b>	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.			
<b>EP QO-1</b>	<b>EP QRi-1</b>	Engagement teams do not understand and fulfill their responsibilities in connection with the engagements, including, as applicable, the overall responsibility of engagement partners for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement.	Choose an item.	Choose an item.	Choose an item.
<b>EP QO-1</b>	<b>EP QRi-2</b>	I do not have policies and procedures to ensure quality engagements are performed consistently and in conformity with professional standards.	Choose an item.	Choose an item.	Choose an item.
<b>EP QO-1</b>	<b>EP QRi-3</b>	I do not review quality management materials (for example, an audit and accounting manual, standardized forms, checklists, templates, practice aids, tools, questionnaires, and the like) to determine that they are suitable and reliable for use on the specified engagement.	Choose an item.	Choose an item.	Choose an item.
<b>EP QO-1</b>	<b>EP QRi-4</b>	I (or per-diem personnel) do not tailor quality management materials to each engagement nor use the templates and practice aids that are appropriate for the engagement.	Choose an item.	Choose an item.	Choose an item.
<b>EP QO-1</b>	<b>EP QRi-5</b>	I fail to identify industry- or regulatory-specific requirements that may not be addressed in third-party practice aids (for example, state regulatory requirements).	Choose an item.	Choose an item.	Choose an item.
<b>EP QO-1</b>	<b>EP QRi-6</b>	I do not explain my policies to per-diem personnel.	Choose an item.	Choose an item.	Choose an item.
<b>EP QO-1</b>	<b>EP QRi-7</b>	When using per-diem personnel, I am not sufficiently and appropriately involved throughout all phases of the engagement, including planning, timing of the engagement, and preliminary audit strategy.	Choose an item.	Choose an item.	Choose an item.
<b>EP QO-1</b>	<b>EP QRi-8</b>	I do not take responsibility for per-diem personnel assigned to the engagement understanding the relevant ethical requirements, including independence.	Choose an item.	Choose an item.	Choose an item.
<b>EP QO-1</b>	<b>EP QRi-9</b>	Per-diem personnel do not sufficiently understand their responsibilities in connection with engagements, in accordance with professional standards, and how they should fulfill those responsibilities.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
EP QO-1	QM sec. 10, par. .32a	Engagement teams understand and fulfill their responsibilities in connection with the engagements, including, as applicable, the overall responsibility of engagement partners for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement.			
EP QO-1	EP QRI-10	Per-diem personnel are not assigned based on competence and capabilities.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRI-11	Changes to the clients' background information, including those obtained during client acceptance and continuance procedures, are not considered during planning procedures.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRI-12	EQ reviewers are not sufficiently involved throughout the engagement.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRI-13	The need for a specialist or consultant is not identified during the planning phase.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRI-14	I (and per-diem personnel) do not sufficiently document planning procedures.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRI-15	The roles and responsibilities of per-diem personnel on the engagement are not thoroughly and clearly communicated prior to commencing the engagement.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRI-16	The resource needs and nature of the engagement are not appropriately considered, both during the planning stage and when circumstances change during the performance of the engagement, leaving the engagements understaffed.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRI-17	I (or per-diem personal) do not have the appropriate experience, including industry considerations.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRI-18	I (or per-diem personnel) am not aware of economic conditions that may affect my clients.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRI-19	I do not perform fraud brainstorming sessions.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRI-20	The budgets created for individual engagements are inappropriate based on the nature of the work to be performed.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRI-21	The staffing on each engagement is not commensurate with the budgeted hours.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRI-22	I do not take ultimate responsibility for the engagement.	Choose an item.	Choose an item.	Choose an item.

QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk
EP QO-1	QM sec. 10, par. .32a	Engagement teams understand and fulfill their responsibilities in connection with the engagements, including, as applicable, the overall responsibility of engagement partners for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement.			
EP QO-1	EP QRi-23	I do not appropriately manage deadlines or workload concentrations.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRi-24	Changes to the engagement, strategy, engagement plan, or planning materiality are not documented.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRi-25	I do not identify matters for consultation.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRi-26	The work done by a firm service delivery center, another network firm, or a component auditor, is not adequately directed, supervised, or reviewed.	Choose an item.	Choose an item.	Choose an item.
EP QO-1	EP QRi-27	Documentation does not provide a clear understanding of the work performed, the evidence obtained and its source, and the conclusions reached before the report is issued.	Choose an item.	Choose an item.	Choose an item.
EP QO-2	QM sec. 10, par. .32b	The nature, timing, and extent of direction and supervision of engagement teams and review of the work performed is appropriate based on the nature and circumstances of the engagements and the resources assigned or made available to the engagement teams, and the work performed by less experienced engagement team members is directed, supervised, and reviewed by more experienced engagement team members.			
EP QO-2	EP QRi-28	The nature, timing, and extent of direction and supervision of engagement teams and review of the work performed is not appropriate based on the nature and circumstances of the engagements and the resources assigned or made available to the engagement teams, and the work performed by less experienced engagement team members is not directed, supervised, and reviewed by more experienced engagement team members.	Choose an item.	Choose an item.	Choose an item.
EP QO-2	EP QRi-29	Component auditors and remote per-diem personnel are not adequately directed and supervised throughout the engagement.	Choose an item.	Choose an item.	Choose an item.
EP QO-2	EP QRi-30	All required checklists and work programs have not been completed, or the objectives of the work programs have not been achieved.	Choose an item.	Choose an item.	Choose an item.
EP QO-2	EP QRi-31	The work performed does not support the conclusions reached or is not properly documented.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
EP QO-2	QM sec. 10, par. .32b	The nature, timing, and extent of direction and supervision of engagement teams and review of the work performed is appropriate based on the nature and circumstances of the engagements and the resources assigned or made available to the engagement teams, and the work performed by less experienced engagement team members is directed, supervised, and reviewed by more experienced engagement team members.			
EP QO-2	EP QRI-32	Lack of interaction and communication with the client or between engagement team members adversely affects engagement quality.	Choose an item.	Choose an item.	Choose an item.
EP QO-2	EP QRI-33	Reports are issued before the work is complete and properly reviewed (for example, EQ reviewer reviewed the file after issuance; legal confirmations are received after the report is issued).	Choose an item.	Choose an item.	Choose an item.
EP QO-2	EP QRI-34	I do not have appropriate policies for identifying engagements that I should self-inspect before issuance.	Choose an item.	Choose an item.	Choose an item.
EP QO-2	EP QRI-35	The firm uses personnel from a service delivery center to perform procedures on audit engagements that do not have a sufficient understanding of the applicable professional standards and the firm's policies and procedures.	Choose an item.	Choose an item.	Choose an item.
EP QO-2	EP QRI-36	I do not effectively communicate the EQ review policy to EQ reviewers.	Choose an item.	Choose an item.	Choose an item.
EP QO-2	EP QRI-37	The EQ review policy is not appropriate for the firm's practice.	Choose an item.	Choose an item.	Choose an item.
EP QO-2	EP QRI-38	I do not consistently apply the EQ review policy.	Choose an item.	Choose an item.	Choose an item.
EP QO-2	EP QRI-39	Identification of risky clients during the acceptance and continuance process does not result in the assignment of an EQ reviewer to the engagement.	Choose an item.	Choose an item.	Choose an item.
EP QO-2	EP QRI-40	The firm has not established eligibility criteria for EQ reviewers.	Choose an item.	Choose an item.	Choose an item.
EP QO-2	EP QRI-41	I do not take responsibility for the EQ review.	Choose an item.	Choose an item.	Choose an item.
EP QO-2	EP QRI-42	The EQ review fails to identify significant issues resulting in quality being compromised.	Choose an item.	Choose an item.	Choose an item.
EP QO-2	EP QRI-43	I do not have access to a qualified independent reviewer to perform EQ reviews.	Choose an item.	Choose an item.	Choose an item.

QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk
EP QO-2	QM sec. 10, par. .32b	The nature, timing, and extent of direction and supervision of engagement teams and review of the work performed is appropriate based on the nature and circumstances of the engagements and the resources assigned or made available to the engagement teams, and the work performed by less experienced engagement team members is directed, supervised, and reviewed by more experienced engagement team members.			
EP QO-2	EP QRi-44	I do not have policies and procedures addressing the performance and documentation requirements of the EQ review.	Choose an item.	Choose an item.	Choose an item.
EP QO-2	EP QRi-45	I do not understand my responsibilities related to the EQ review.	Choose an item.	Choose an item.	Choose an item.
EP QO-2	EP QRi-46	EQ reviewers are not provided sufficient time to complete the EQ review.	Choose an item.	Choose an item.	Choose an item.
EP QO-2	EP QRi-47	An engagement report is issued despite unresolved questions by the EQ reviewer related to engagement team judgments and conclusions.	Choose an item.	Choose an item.	Choose an item.
EP QO-3	QM sec. 10, par. .32c	Engagement teams exercise appropriate professional judgment and, when applicable to the type of engagement, maintain professional skepticism.			
EP QO-3	EP QRi-48	Engagement teams do not exercise appropriate professional judgment and, when applicable to the type of engagement, do not maintain professional skepticism.	Choose an item.	Choose an item.	Choose an item.
EP QO-3	EP QRi-49	Overly heavy workloads or impending deadlines result in work being rushed, skepticism being set aside, and poor judgment being used.	Choose an item.	Choose an item.	Choose an item.
EP QO-3	EP QRi-50	Familiarity with the client and other unconscious biases impede my ability to exercise appropriate professional skepticism.	Choose an item.	Choose an item.	Choose an item.
EP QO-3	EP QRi-51	I form incorrect or inappropriate conclusions based on client pressure or influence.	Choose an item.	Choose an item.	Choose an item.
EP QO-4	QM sec. 10, par. .32d	Consultation on difficult or contentious matters is undertaken and the conclusions agreed are implemented.			
EP QO-4	EP QRi-52	Consultation on difficult or contentious matters is not undertaken, or if it is, the conclusions agreed are not implemented.	Choose an item.	Choose an item.	Choose an item.
EP QO-4	EP QRi-53	I am not consistent in deciding when consultations should take place, how they are performed and documented, and whether conclusions are implemented.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
EP QO-4	QM sec. 10, par. .32d	Consultation on difficult or contentious matters is undertaken and the conclusions agreed are implemented.			
EP QO-4	EP QRI-54	I have not internalized the importance and benefit of consultation.	Choose an item.	Choose an item.	Choose an item.
EP QO-4	EP QRI-55	I do not undertake consultations on difficult or contentious matters because I do not recognize which matters (for example, areas involving high subjectivity or difficult-to-interpret accounting guidance) require consultation.	Choose an item.	Choose an item.	Choose an item.
EP QO-4	EP QRI-56	I do not undertake consultations on difficult or contentious matters because I do not know what or with whom to consult.	Choose an item.	Choose an item.	Choose an item.
EP QO-4	EP QRI-57	I (including per-diem personnel) do not appropriately evaluate new accounting standards.	Choose an item.	Choose an item.	Choose an item.
EP QO-4	EP QRI-58	Incomplete facts are presented for consultation on difficult or contentious matters causing incorrect conclusions.	Choose an item.	Choose an item.	Choose an item.
EP QO-4	EP QRI-59	Consultation conclusions are not implemented.	Choose an item.	Choose an item.	Choose an item.
EP QO-4	EP QRI-60	The results of consultations are unclear or inappropriate.	Choose an item.	Choose an item.	Choose an item.
EP QO-5	QM sec. 10, par. 32e	Differences of opinion within the engagement team, or between the engagement team and the engagement quality reviewer or individuals performing activities within the firm's system of quality management, are brought to the attention of the firm and resolved.			
EP QO-5	EP QRI-61	I do not create an environment that encourages open discussion of competing viewpoints.	Choose an item.	Choose an item.	Choose an item.
EP QO-5	EP QRI-62	Resolution of differences of opinion are not properly evaluated and documented.	Choose an item.	Choose an item.	Choose an item.
EP QO-5	EP QRI-63	An engagement report is issued despite a difference of opinion being unresolved.	Choose an item.	Choose an item.	Choose an item.
EP QO-5	EP QRI-64	Significant engagement issues identified during EQ review or report review are not addressed before the report is issued.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
EP QO-6	QM sec. 10, par. .32f	Engagement documentation is assembled on a timely basis after the date of the engagement report, and is appropriately maintained and retained to meet the needs of the firm and comply with law, regulation, relevant ethical requirements, or professional standards.			
EP QO-6	EP QRI-65	Engagement documentation is not assembled on a timely basis after the date of the engagement report or is not appropriately maintained and retained to meet the needs of the firm and comply with law, regulation, relevant ethical requirements, or professional standards.	Choose an item.	Choose an item.	Choose an item.
EP QO-6	EP QRI-66	Engagement documentation is not assembled timely, either because firm policy is not clear and appropriate or because firm policy is not followed.	Choose an item.	Choose an item.	Choose an item.
EP QO-6	EP QRI-67	Engagement documentation is added or modified after the document completion date and such modifications are not authorized or documented.	Choose an item.	Choose an item.	Choose an item.
EP QO-6	EP QRI-68	Engagement documentation is not appropriately maintained and retained, either because firm policy is not clear and appropriate or because firm policy is not followed.	Choose an item.	Choose an item.	Choose an item.
EP QO-6	EP QRI-69	I do not archive appropriately; therefore, documentation is not appropriately maintained and retained.	Choose an item.	Choose an item.	Choose an item.

**Table 3: Required and Suggested Quality Responses – Engagement Performance**

QRe#	Quality Response	Note, Tip, or Warning
Engagement Performance		
EP QRe-1	<b>Policy: I use quality management materials (for example, an audit and accounting manual, standardized forms, checklists, templates, practice aids, tools, questionnaires, and the like) to assist with engagement performance.</b>	
EP QRe-1.01	<p>I establish procedures to ensure that regardless of whether the firm develops its own quality management materials or obtains it from a third-party provider</p> <ul style="list-style-type: none"> <li>• the material is reliable and suitable for the engagement.</li> <li>• the quality management materials are up to date.</li> <li>• modifications to the package and to individual forms are appropriate.</li> <li>• the forms being used are appropriate for the engagement.</li> </ul>	<p><b>TIP:</b> Review your client’s state regulatory website where you can find the requirements and example reports.</p>
EP QRe-2	<b>Policy: Planning for engagements meets professional, regulatory, and the firm’s requirements.</b>	
EP QRe-2.01	I use practice aids that prescribe the factors the engagement team should consider in the planning process and the extent of documentation of those considerations.	
EP QRe-2.02	I customize practice aids for each engagement and determine that I am using the appropriate forms for each engagement.	

QRe#	Quality Response	Note, Tip, or Warning
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## Engagement Performance

**EP**  
**QRe-2.03**

Planning considerations may vary depending on the size and complexity of the engagement. The firm follows the following procedures for planning engagements:

- When I accept an audit, review, or attestation examination in an industry in which I do not have recent experience, I take industry-specific continuing professional education before planning procedures are performed.

- I accept responsibility for planning the engagement.

- Appropriate per-diem personnel are assigned responsibilities during the planning phase.

- I develop or update background information on the client and the engagement.

- Planning includes determination of whether the engagement meets the firm's criteria for performing an EQ review. If so, the person performing the EQ review reviews the planning timely.

- If a specialist or consultant is used to provide the engagement team with the necessary competence, that person reviews the planning timely.

**REMEMBER:** Planning comes FIRST!

**TIP:** How recent depends upon changes in the industry and related accounting; not more than five years is a useful guideline, but it could be less, especially in regulated industries. Also, make sure that the engagement team is using the most recent AICPA Audit and Accounting Guide for that industry, when applicable.

**WARNING:** The higher the risk that the firm will fail to perform and report in conformity with applicable professional standards in an engagement, the more important it is that the engagement partner be more deeply involved in planning.

**WARNING:** QM section 20, *Engagement Quality Review*, requires that the EQ review take place at appropriate times during the engagement.

QRe#	Quality Response	Note, Tip, or Warning
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## Engagement Performance

<p><b>EP</b> <b>QRe-2.04</b></p>	<p>I prepare planning documentation that includes the following:</p> <ul style="list-style-type: none"> <li>• Proposed work programs tailored to the specific engagement</li> <li>• The need for per-diem personnel</li> <li>• Whether there is a need for specialized knowledge and how that will be obtained (for example, from other practice offices or through consultation)</li> <li>• Consideration of the economic conditions affecting the client and its industry and their potential effect on the conduct of the engagement</li> <li>• Consideration of risks, including fraud considerations, affecting the client and the engagement and how they may affect the procedures to be performed</li> <li>• A budget that allocates sufficient time for the engagement to be performed in accordance with professional standards and the firm’s quality management policies and procedures.</li> </ul>	<p><b>NOTE:</b> Although planning is an iterative process, having the engagement partner approve planning before fieldwork begins results in a more effective, efficient, and higher quality engagement.</p>
<p><b>EP</b> <b>QRe-3</b></p>	<p><b>Policy: The engagement is performed, supervised, documented, and reported (or communicated) in accordance with the requirements of professional standards, applicable regulators, and the firm.</b></p>	
<p><b>EP</b> <b>QRe-3.01</b></p>	<p>I accept ultimate responsibility for the engagement.</p>	
<p><b>EP</b> <b>QRe-3.02</b></p>	<p>A written work program is used in each engagement.</p>	

QRe#	Quality Response	Note, Tip, or Warning
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## Engagement Performance

<p>EP QRe-3.03</p>	<p>I supervise the work of per-diem personnel by doing the following:</p> <ul style="list-style-type: none"> <li>• Briefing the engagement team on the objectives of their work</li> <li>• Tracking the progress of the engagement</li> <li>• 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</li> <li>• Addressing significant findings and issues arising during the engagement, considering their significance, and modifying the planned approach appropriately</li> <li>• Identifying matters for consultation or consideration by more experienced engagement team members during the engagement</li> </ul>	
<p>EP QRe-3.04</p>	<p>I (and per-diem personnel) prepare working papers that adhere to the firm’s guidelines, applicable regulatory requirements, and professional standards for the form and content of documentation of the work performed and conclusions reached.</p>	<p><b>NOTE:</b> If you haven’t documented what you have done, it’s as if you didn’t do it. Remember, the standard requires documentation for “an experienced reviewer with no connection to the engagement” — someone with no access to anything except what is in the working papers. Therefore, the working papers need sufficient detail for the reviewer to understand exactly what was done.</p>
<p>EP QRe-3.05</p>	<p>Engagement documentation makes clear when and by whom engagement documentation was prepared and reviewed.</p>	
<p>EP QRe-4</p>	<p><b>Policy: Qualified engagement team members review work performed by other team members on a timely basis.</b></p>	
<p>EP QRe-4.01</p>	<p>For each engagement, there is evidence of appropriate review of documentation of the work performed, conclusions reached, the financial statements, and the report.</p>	<p><b>NOTE:</b> This can include the extent of the engagement partner’s review.</p>

QRe#	Quality Response	Note, Tip, or Warning
<b>Engagement Performance</b>		
<b>EP</b> <b>QRe-4.02</b>	<p>I perform a self-review of the nature, timing, and extent of procedures performed to have reasonable assurance that they are consistent with the approach described in the planning documentation. The self-review is performed after an appropriate amount of time has passed since my work was performed. Exceptions are investigated and resolved.</p>	<p><b>WARNING:</b> The financial statements can be materially correct, the report can be appropriate in the circumstances, and yet, the engagement may not be in compliance with professional standards because, for example, the engagement team did not obtain sufficient appropriate engagement evidence or the documentation does not reflect all the procedures performed and evidence obtained.</p>
<b>EP</b> <b>QRe-4.03</b>	<p>Engagement documentation is reviewed to determine whether the following have occurred:</p> <ul style="list-style-type: none"> <li>• The work has been performed in accordance with professional standards and applicable legal and regulatory requirements.</li> <li>• Significant findings and issues have been raised for further consideration.</li> <li>• Appropriate consultations have taken place and the resulting conclusions have been documented and implemented.</li> <li>• The nature, timing, and extent of the work performed is appropriate and without need for revision.</li> <li>• The work performed supports the conclusions reached and is appropriately documented.</li> <li>• The evidence obtained is sufficient and appropriate to support the report.</li> <li>• The objectives of the engagement procedures have been achieved.</li> </ul>	<p><b>WARNING:</b> The review of engagement documentation to determine that the work has been performed in accordance with professional standards is not the same as the review to determine that the report issued by the firm is appropriate in the circumstances. Reviewing engagement documentation entails reviewing the working papers for documentation of sufficient appropriate engagement evidence.</p>
<b>EP</b> <b>QRe-5</b>	<p><b>Policy: Engagements as specified in the firm’s methodology are reviewed by a person who is not a member of the engagement team before the reports or other communications are issued.</b></p>	<p><b>NOTE:</b> Pre-issuance reviews by a person who is not a member of the engagement team may be less extensive than an EQ review.</p>

QRe#	Quality Response	Note, Tip, or Warning
<b>Engagement Performance</b>		
EP QRe-5.01	<p>The firm’s methodology specifies which engagements require pre-issuance review by a person who is not a member of the engagement team and prescribes the extent of the pre-issuance review of the report and other communication, financial statements, and selected documentation of the work performed, and conclusions reached. This includes</p> <ul style="list-style-type: none"> <li>• assigning a reviewer with the appropriate qualifications, and</li> <li>• prescribing the documentation that the reviewer must review for each level of service and permitting the reviewer to select additional documentation to review.</li> </ul>	<p><b>TIP:</b> A pre-issuance review by a person who is not a member of the engagement team, although only required by the standard for engagements meeting the firm’s criteria for an EQ review, provides a fresh look and is very helpful. The firm can prescribe procedures for different levels of services that are less extensive than those required for EQ review.</p>
EP QRe-6	<p><b>Policy: Throughout engagements, I, and per-diem personnel, exercise professional judgment and professional skepticism.</b></p>	
EP QRe-6.01	<p>I inform per-diem personnel of the importance of professional judgment and professional skepticism.</p>	
EP QRe-6.02	<p>When performing engagements, I, and per-diem personnel, use professional skepticism in discussions and when reviewing client materials.</p>	
EP QRe-7	<p><b>Policy: I establish, document, and follow procedures when using external personnel, such as from other firms, for audit or accounting engagements.</b></p>	
EP QRe-7.01	<p>Those procedures address the following:</p> <ul style="list-style-type: none"> <li>• The form in which instructions are given to external personnel</li> <li>• The extent to which their work is reviewed</li> </ul>	<p><b>TIP:</b> For example, when external personnel are used to observe inventory, when using independent contractors as part of the engagement team, or when assuming responsibility for the work of component auditors</p>

QRe#	Quality Response	Note, Tip, or Warning
<b>Engagement Performance</b>		
<b>EP</b> <b>QRe-8</b>	<b>Policy: I have criteria for determining whether an EQ review should be performed, evaluate all engagements against the criteria, perform an EQ review for all engagements that meet the criteria, and complete the review before the report is released.</b>	<p><b>NOTE: This is a required response.</b> [QM sec. 10, par. .35f and QM sec. 20, par. .24b]</p> <p><b>TIP:</b> If your acceptance and continuance policies and procedures limit engagement risk, the need for an EQ review may be diminished.</p> <p><b>WARNING:</b> Criteria that are not responsive to the structure and nature of the firm’s practice are not appropriate.</p>
<b>EP</b> <b>QRe-8.01</b>	<p>The criteria for requiring that an EQ review be performed are based on my assessment of which engagements would most benefit from an independent review, taking into account the structure and nature of my practice.</p>	<p><b>WARNING:</b> When setting criteria for an EQ review, it is critical that the firm carefully consider which engagements have the highest risk of NOT being performed in accordance with the standards or that the report will NOT be appropriate in the circumstances. Consider the engagements that the firm performs in setting the criteria and not only engagements that are clearly outside the firm’s expertise. Recognize that risk factors to the firm change over time and the firm’s criteria for an EQ review may need to change accordingly.</p>

QRe#	Quality Response	Note, Tip, or Warning
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## Engagement Performance

<p><b>Ep</b> <b>QRe-8.02</b></p>	<p>The firm’s criteria include the following: <i>[specify criteria, which could include the following]</i>:</p> <ul style="list-style-type: none"> <li>• The identification of unusual circumstances or risks in an engagement or class of engagements as pre-determined by the firm, for example               <ul style="list-style-type: none"> <li>– audits in which a going concern issue was identified but the report was not modified,</li> <li>– a compilation with disclosures when the firm has only been doing compilations without disclosures, or</li> <li>– a review (or other engagement) for an entity with issues that the firm rarely encounters (for example, joint ventures)</li> </ul> </li> <li>• An EQ review is required by law or regulation.</li> <li>• An engagement for which the undue influence threat may exist (for example, an engagement that represents over 10% of the firm’s audit and accounting practice)</li> <li>• A <i>high-risk engagement</i>, as defined by the firm, using the same criteria used for acceptance and continuance</li> <li>• An engagement in an industry in which the firm’s practice is limited, and the firm’s personnel have little or no experience</li> <li>• An engagement for which the familiarity threat may exist</li> <li>• An engagement for an entity operating in a highly specialized or regulated industry, including financial institutions, employee benefit plans, and audits in accordance with government auditing standards</li> </ul>	<p><b>WARNING:</b> Appropriate criteria for most firms will consist of a mix of the following and not rely on just one criterion.</p> <p><b>WARNING:</b> Having your firm’s only criterion for performing an EQ review be “I have identified unusual circumstances or risks in an engagement” is not appropriate. This criterion is too subjective to be responsive to the structure and nature of the firm’s practice. Likewise, the client’s revenue volume or total assets as the sole criterion is not appropriate because these are not, in and of themselves, indicators of the risk of the engagement.</p> <p><b>NOTE:</b> The criterion that an EQ review is required by law or regulation is a required response. [QM sec. 10, par. .35f(i)]</p>
<p><b>EP</b> <b>QRe-8.03</b></p>	<p>I evaluate all engagements against the criteria and perform an EQ review for all engagements that meet the criteria.</p>	
<p><b>EP</b> <b>QRe-9</b></p>	<p><b>Policy: EQ reviewers meet the firm’s criteria for eligibility.</b></p>	<p><b>TIP:</b> The AICPA’s list of peer reviewers and your state society are resources for finding an EQ reviewer.</p>

QRe#	Quality Response	Note, Tip, or Warning
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## Engagement Performance

<b>EP</b> <b>QRe-9.01</b>	<p>The EQ reviewer meets the following criteria:</p> <ul style="list-style-type: none"> <li>• Has sufficient technical expertise and experience.</li> <li>• Carries out responsibilities with objectivity and due professional care without regard to the relative positions of the audit engagement partner and the EQ reviewer. If the reviewer’s objectivity becomes impaired, the reviewer must be replaced.</li> <li>• Does not make decisions for the engagement team or participate in the performance of the engagement, except to serve as a consultant to the engagement partner at any stage during the engagement, with the understanding that the EQ reviewer’s objectivity may be impaired if the nature and extent of consultations becomes significant.</li> <li>• Does not assume any of the responsibilities of the engagement partner or have responsibility for the audit of any significant subsidiaries, divisions, benefit plans, or affiliated or related entities.</li> <li>• Meets the independence requirements relating to the engagements reviewed, even though the EQ reviewer is not a member of the engagement team.</li> </ul>
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<b>EP</b> <b>QRe-10</b>	<p><b>Policy: I establish procedures addressing the nature, timing, extent, and documentation of the EQ review.</b></p>
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<b>EP</b> <b>QRe-10.01</b>	<p>Regarding the EQ review, I understand that</p> <ul style="list-style-type: none"> <li>• I remain responsible for the engagement and its performance, and the EQ reviewer does not make decisions for the engagement team.</li> <li>• I may consult the EQ reviewer at any stage during the engagement, with the understanding that the EQ reviewer’s objectivity may be impaired if the nature and extent of consultations becomes significant.</li> </ul>
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QRe#	Quality Response	Note, Tip, or Warning
<b>Engagement Performance</b>		
<b>EP</b> <b>QRe-10.02</b>	<p>For engagements for which the firm’s EQ review criteria stipulate that an EQ review is required, I</p> <ul style="list-style-type: none"> <li>• determine that an EQ reviewer has been appointed,</li> <li>• discuss with the EQ reviewer the significant findings or issues that arose during the engagement, if any, and</li> <li>• do not release the report until the completion of the EQ review.</li> </ul>	<p><b>TIP:</b> The EQ review is completed when the EQ reviewer decides it is completed.</p>
<b>EP</b> <b>QRe-10.03</b>	<p>Timing of the EQ review: Performing an EQ review is not necessary to obtain sufficient appropriate audit evidence for audit engagements; therefore, the EQ review does not need to be completed before the date of the auditor’s report. When the EQ review results in additional audit procedures being performed, the date of the auditor’s report is changed to the date by which sufficient appropriate audit evidence has been obtained.</p>	<p><b>WARNING:</b> Although permitted by the standard, completing the EQ review after dating the report is far from optimal, and the time between dating the report and then completing the EQ review is expected to be minimal.</p>

QRe#	Quality Response	Note, Tip, or Warning
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## Engagement Performance

<p><b>EP</b> <b>QRe-10.04</b></p>	<p>The firm's procedures require that for audit and examination engagements, the EQ reviewer does the following, at appropriate points during the engagement:</p> <ul style="list-style-type: none"> <li>• Discuss significant accounting, auditing, and financial reporting issues with the engagement partner, including matters for which there has been consultation</li> <li>• Discuss with the engagement partner the engagement team's identification and audit of high-risk assertions, transactions, and account balances</li> <li>• Confirm with the engagement partner that there are no significant unresolved issues</li> <li>• Review selected working papers relating to the significant judgments the engagement team made and the conclusions they reached</li> <li>• Review documentation of the resolution of significant accounting, auditing, or financial reporting issues, including documentation of consultation with firm personnel or external sources</li> <li>• Review the summary of uncorrected misstatements related to known and likely misstatements</li> <li>• Review additional engagement documentation to the extent considered necessary</li> <li>• Read the financial statements and the report and consider whether the report is appropriate</li> <li>• Complete the review before the release of the report</li> <li>• Determine whether the issues raised in the review require additional procedures that necessitate changing the auditor's report date</li> </ul>
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**NOTE:** QM section 20, *Engagement Quality Reviews*, addresses the appointment and eligibility of the EQ reviewer and the EQ reviewer's responsibilities relating to the performance and documentation of an EQ review. QM section 20 requires that the EQ review be conducted at appropriate points during the engagement, which has the advantage of reducing the time pressure for resolving issues that the EQ reviewer identifies.

<p><b>EP</b> <b>QRe-10.04</b></p>	<p>Before reports are released, matters that would cause the reviewer to question the engagement team's judgments and conclusions are resolved and the resolution is documented.</p>
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QRe#	Quality Response	Note, Tip, or Warning
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## Engagement Performance

<p>EP QRe-10.05</p>	<p>The EQ review is documented. Documentation includes the following:</p> <ul style="list-style-type: none"> <li>• The procedures required by the firm’s policies on EQ review have been performed.</li> <li>• The EQ review has been completed before the report is released.</li> <li>• An assertion that the reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions it reached were not appropriate.</li> </ul>	
<p>EP QRe-11</p>	<p><b>Policy: I require that consultation take place when appropriate; that sufficient and appropriate resources are available to enable appropriate consultation to take place; that all the relevant facts known to the engagement team are provided to those consulted; that the nature, scope, and conclusions of such consultations are documented; and that conclusions resulting from such consultations are implemented.</b></p>	
<p>EP QRe-11.01</p>	<p>I inform per-diem personnel of my consultation policies and procedures.</p>	
<p>EP QRe-11.02</p>	<p>I identify circumstances, including specialized situations, in which firm personnel are expected to consult. Those circumstances include the following [<i>specify the criteria, such as the following</i>]:</p> <ul style="list-style-type: none"> <li>• Application of newly issued technical pronouncements</li> <li>• Industries with special accounting, auditing, or reporting requirements</li> <li>• Emerging practice problems</li> <li>• Choices among alternative generally accepted accounting principles upon initial adoption or when an accounting change is made</li> <li>• Reissuance of a report, consideration of omitted procedures after a report has been issued, or subsequent discovery of facts that existed at the time a report was issued</li> <li>• Identification of suspected fraud or illegal acts</li> <li>• Filing requirements of regulatory agencies</li> </ul>	
<p>EP QRe-11.03</p>	<p>I require per-diem personnel to bring matters for consultation or consideration during the engagement to my attention.</p>	

QRe#	Quality Response	Note, Tip, or Warning
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## Engagement Performance

<p><b>EP</b> <b>QRe-11.04</b></p>	<p>I consult with current technical references and, as needed, outside parties such as advisory services provided by other firms, the AICPA Technical Hotline (877.242.7212), and other professional and regulatory bodies.</p>	
<p><b>EP</b> <b>QRe-11.05</b></p>	<p>I determine the need to consult based on the following:</p> <ul style="list-style-type: none"> <li>• The materiality of the matter</li> <li>• My experience in a particular industry or functional area</li> <li>• Whether the financial reporting framework or professional standards applicable to the engagement are as follows:</li> <li>• Based on authoritative pronouncements that are subject to varying interpretations</li> <li>• Based on varied interpretations of prevailing practice</li> <li>• Under active consideration by an authoritative body</li> </ul>	<p><b>WARNING:</b> Don't hesitate to consult; those who only ask when they are unable to draw their own conclusion may not know whether they have come to the correct conclusion.</p>
<p><b>EP</b> <b>QRe-11.06</b></p>	<p>I maintain and provide per-diem personnel with access to adequate and current reference materials, including materials relevant to clients. Those materials include the most current versions of the following:</p> <ul style="list-style-type: none"> <li>• AICPA <i>Professional Standards</i></li> <li>• AICPA Audit and Accounting Guides relevant to all industries in which the firm practices</li> <li>• FASB pronouncements</li> <li>• Any other pronouncements relevant to the firm's practice (for example, SEC pronouncements, GASB pronouncements, <i>Government Auditing Standards</i> [Yellow Book], and other government audit guides relevant to the firm's practice)</li> </ul>	<p><b>TIP:</b> The U.S. Government Accountability Office's Yellow Book Technical Assistance can be reached at 202.512.9535 or <a href="mailto:yellowbook@gao.gov">yellowbook@gao.gov</a>.</p>
<p><b>EP</b> <b>QRe-11.07</b></p>	<p>Those consulted are provided with all relevant facts that will enable them to provide informed advice.</p>	
<p><b>EP</b> <b>QRe-11.08</b></p>	<p>I resolve differences of opinion between engagement personnel and specialists before report issuance.</p>	

QRe#	Quality Response	Note, Tip, or Warning
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## Engagement Performance

<p>EP QRe-11.09</p>	<p>I document consultations. That required documentation includes the following:</p> <ul style="list-style-type: none"> <li>• All relevant facts and circumstances</li> <li>• References to professional literature used in the determination</li> <li>• Conclusions reached and how they were implemented</li> <li>• Signatures of engagement partner and consultant</li> <li>• Reference to the engagement working papers</li> </ul>	
<p>EP QRe-12</p>	<p><b>Policy: I address and resolve differences of opinion within the engagement team; with those consulted; and, when applicable, between the engagement partner and the EQ reviewer.</b></p>	
<p>EP QRe-12.01</p>	<p>I evaluate issues of professional judgment when differences of opinion arise with per-diem personnel, with those consulted, or with an external reviewer and resolve the matter before releasing the report.</p>	
<p>EP QRe-12.02</p>	<p>The conclusion reached to resolve the matter of disagreement and how that conclusion was implemented are documented.</p>	
<p>EP QRe-12.03</p>	<p>I will not release the report until any differences of opinion are resolved.</p>	
<p>EP QRe-13</p>	<p><b>Policy: I complete the assembly of final engagement files on a timely basis.</b></p>	<p><b>TIP:</b> Assembling the final files sooner rather than later is best practice.</p>
<p>EP QRe-13.01</p>	<p>Final engagement files are assembled by the earlier of time limits required by professional standards and applicable regulatory requirements, if any, or 60 days from the report release date.</p>	<p><b>TIP:</b> Because deadlines have power, it is helpful for the firm to specify a time limit for all engagements in the absence of time limits required by professional standards or regulatory requirements.</p>
<p>EP QRe-14</p>	<p><b>Policy: I maintain the confidentiality, safe custody, integrity, accessibility, and retrievability of engagement documentation.</b></p>	

QRe#	Quality Response	Note, Tip, or Warning
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## Engagement Performance

<p><b>EP</b> <b>QRe-14.01</b></p>	<p>I implement adequate and appropriate controls over the confidentiality, custody, integrity, accessibility, and retrievability of the firm’s engagement documentation.</p>	<p><b>NOTE:</b> The firm may be subject to law or regulation around confidentiality, such as the General Data Protection Act or California Consumer Act.</p>
<p><b>EP</b> <b>QRe-14.02</b></p>	<p>Adequate and appropriate controls over confidentiality, custody, integrity, accessibility, and retrievability of engagement documentation include the following:</p> <ul style="list-style-type: none"> <li>• Requiring that engagement documentation clearly indicates when and by whom it was prepared and reviewed.</li> <li>• Procedures to protect the integrity of the information at all stages of the engagement, including preventing unauthorized changes to the engagement documentation. For electronic engagement documentation, this includes <ul style="list-style-type: none"> <li>– using passwords or data encryption, or both, to restrict access to authorized users, and</li> <li>– using appropriate back-up routines at appropriate stages during the engagement.</li> </ul> </li> <li>• Procedures for tracking the distribution of engagement documentation materials to personnel at the start of the engagement, preparing engagement documentation during the engagement, and assembling final documentation at the end of the engagement.</li> <li>• Procedures to allow access to hard copy engagement documentation for authorized users, including the engagement team and other authorized users, such as inspectors, and restrict access by others.</li> <li>• Maintaining engagement documentation in one location to enhance retrievability (this applies to both hard copy and electronic documentation, although back-up files would be maintained elsewhere).</li> <li>• Implementing procedures regarding original paper documents that have been electronically scanned or otherwise copied to another media that accomplish the following: <ul style="list-style-type: none"> <li>– Generate copies that contain the entire content of the original paper documentation, including manual signatures, cross-references, and annotations</li> <li>– Integrate the copies into the engagement files, including indexing and signing off on the copies as necessary</li> </ul> </li> </ul>	<p><b>NOTE:</b> Based on the size of the firm and the formality of your documentation, you may decide this level of detail is not necessary in your quality management materials.</p>

QRe#	Quality Response	Note, Tip, or Warning
<b>Engagement Performance</b>		
EP QRe-15	<b>Policy: I retain engagement documentation for a period of time sufficient to meet the needs of the firm, professional standards, laws, and regulations.</b>	
EP QRe-15.01	I maintain a list specifying the period of time sufficient to meet the needs of the firm, the requirements of the state board of accountancy, and applicable professional standards for each level of engagement service.	<b>TIP:</b> Your firm’s professional liability insurance carrier can be a resource in determining appropriate time limits.
EP QRe-15.02	Engagement documentation is retained for the specified period of time.	

## Table 4: Example of Evaluated Quality Risks and Linked Responses – Engagement Performance

The following table provides examples of evaluated quality risks and linked responses to each quality risk. Please note that this is for illustrative purposes only. Your firm may identify other risks, may evaluate the likelihood and impact of those risks differently, and may choose other responses. The examples are not complete; if all you do is copy and paste these examples, your SOQM will not provide reasonable assurance of achieving its objectives.

The following examples illustrate the documentation of establishing quality objectives, evaluating quality risks, and designing the firm’s responses to those quality risks. This is not a complete picture of an established SOQM. The implementation, evaluation, and monitoring of the system will need to be documented and established, as well.

Engagement Performance							
EP QO-1 Engagement teams understand and fulfill their responsibilities in connection with the engagements, including, as applicable, the overall responsibility of engagement partners for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement.							
QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk	Quality Response	QRe#
EP QO-1	EP QRi-4	I (or per-diem personnel) do not tailor quality management materials to each engagement or does not use the templates and practice aids that are appropriate for the engagement.	Low	High	Yes	I establish procedures to ensure that regardless of whether the firm develops its own quality management materials or obtains it from a third-party provider <ul style="list-style-type: none"> <li>the material is reliable and suitable for the engagement.</li> <li>the quality management materials are up to date.</li> <li>modifications to the package and to individual forms are appropriate.</li> <li>the forms being used are appropriate for the engagement.</li> <li>industry or regulatory requirements are identified.</li> </ul>	EP QRe-1.01

QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk	Quality Response	QRe#
EP QO-2	The nature, timing, and extent of direction and supervision of engagement teams and review of the work performed is appropriate based on the nature and circumstances of the engagements and the resources assigned or made available to the engagement teams, and the work performed by less experienced engagement team members is directed, supervised, and reviewed by more experienced engagement team members.						
EP QO-2	EP QRi-29	Component auditors and remote per-diem personnel are not adequately directed and supervised throughout the engagement.	Low	High	Yes	For each engagement, there is evidence of appropriate review of documentation of the work performed, conclusions reached, the financial statements, and the report.	EP QRe-4.01
EP QO-4	Consultation on difficult or contentious matters is undertaken and the conclusions agreed are implemented.						
EP QO-4	EP QRi-55	I do not undertake consultations on difficult or contentious matters because I do not recognize which matters (for example, areas involving high subjectivity or difficult-to-interpret accounting guidance) require consultation.	High	Medium	Yes	<p>I identify circumstances, including specialized situations, in which firm personnel are expected to consult. Those circumstances include the following <i>[specify the criteria, such as the following]</i>:</p> <ul style="list-style-type: none"> <li>• Application of newly issued technical pronouncements</li> <li>• Industries with special accounting, auditing, or reporting requirements</li> <li>• Emerging practice problems</li> <li>• Choices among alternative generally accepted accounting principles upon initial adoption or when an accounting change is made</li> <li>• Reissuance of a report, consideration of omitted procedures after a report has been issued, or subsequent discovery of facts that existed at the time a report was issued</li> <li>• Identification of suspected fraud or illegal acts</li> <li>• Filing requirements of regulatory agencies</li> </ul>	EP QRe-11.02

# Resources

**Table 1: Required Quality Objectives – Resources**

QO #	Ref:	Quality Objectives
RES QO-1	QM sec. 10, par. .33a	Personnel are hired, developed, and retained and have the competence and capabilities to <ul style="list-style-type: none"> <li>i. consistently perform quality engagements, including having knowledge or experience relevant to the engagements the firm performs, or</li> <li>ii. perform activities or carry out responsibilities in relation to the operation of the firm’s systems of quality management.</li> </ul>
RES QO-2	QM sec. 10, par. .33b	Personnel demonstrate a commitment to quality through their actions and behaviors, develop and maintain the appropriate competence to perform their roles, and are held accountable or recognized through timely evaluations, compensation, promotion, and other incentives.
RES QO-3	QM sec. 10, par. .33c	Individuals are obtained from external sources (that is, the network, another network firm, or a service provider) when the firm does not have sufficient or appropriate personnel to enable the operation of the firm’s SOQM or performance of engagements.
RES QO-4	QM sec. 10, par. .33d	Engagement team members are assigned to each engagement, including an engagement partner, who have appropriate competence and capabilities, including being given sufficient time, to consistently perform quality engagements.
RES QO-5	QM sec. 10, par. .33e	Individuals who have appropriate competence and capabilities, including sufficient time, are assigned to perform activities within the SOQM.
RES QO-6	QM sec. 10, par. .33f	Appropriate technological resources are obtained or developed, implemented, maintained, and used to enable the operation of the firm’s SOQM and the performance of engagements.
RES QO-7	QM sec. 10, par. .33g	Appropriate intellectual resources are obtained or developed, implemented, maintained, and used to enable the operation of the firm’s SOQM and the consistent performance of quality engagements, and such intellectual resources are consistent with professional standards and applicable legal and regulatory requirements, where applicable.
RES QO-8	QM sec. 10, par. .33h	Human, technological, or intellectual resources from service providers are appropriate for use in the firm’s SOQM and in the performance of engagements, taking into account preceding quality objectives RES QO-4 through RES QO-7.

**Table 2: Required Quality Objectives and Potential Quality Risks – Resources**

QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk
RES QO-1	QM sec. 10, par. .33a	Personnel are hired, developed, and retained and have the competence and capabilities to <ul style="list-style-type: none"> <li>i. consistently perform quality engagements, including having knowledge or experience relevant to the engagements the firm performs, or</li> <li>ii. perform activities or carry out responsibilities in relation to the operation of the firm’s system of quality management.</li> </ul>			
<b>Human Resources</b>					
RES QO-1	RES QRi-1	I (or per-diem personnel) do not have, nor can gain, the competence and capabilities to consistently perform quality engagements (which includes not only technical competence but professional ethics, values, and attitudes; see QM sec. 10, par. .A92).	Choose an item.	Choose an item.	Choose an item.
RES QO-1	RES QRi-2	I (or per-diem personnel) do not have the competence and capabilities to perform activities or carry out responsibilities in relation to the operation of the firm’s SOQM	Choose an item.	Choose an item.	Choose an item.
RES QO-1	RES QRi-3	I do not have sufficient per-diem personnel or per-diem personnel with the appropriate competence and capabilities to perform the engagements I have accepted.	Choose an item.	Choose an item.	Choose an item.
RES QO-1	RES QRi-4	The individuals recruited and hired by the firm do not have, nor can gain, the competence and capabilities to consistently perform quality engagements, which includes not only technical competence but professional ethics, values, and attitudes.	Choose an item.	Choose an item.	Choose an item.
RES QO-1	RES QRi-5	The firm does not have sufficient resources to recruit quality candidates.	Choose an item.	Choose an item.	Choose an item.
RES QO-1	RES QRi-6	The firm experiences high turnover.	Choose an item.	Choose an item.	Choose an item.
RES QO-1	RES QRi-7	I (or per-diem personnel) do not consistently perform quality engagements.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
EP QO-2	QM sec. 10, par. .33b	Personnel demonstrate a commitment to quality through their actions and behaviors, develop and maintain the appropriate competence to perform their roles, and are held accountable or recognized through timely evaluations, compensation, promotion, and other incentives.			

## Human Resources

RES QO-2	RES QRI-8	I (or per-diem personnel) do not demonstrate a commitment to quality through my actions and behaviors, do not develop or maintain the appropriate competence to perform my role, and am not held accountable or recognized through timely evaluations, compensation, promotion, and other incentives.	Choose an item.	Choose an item.	Choose an item.
RES QO-2	RES QRI-9	The capabilities and competencies that I (or per-diem personnel) possess do not support the firm's quality objectives.	Choose an item.	Choose an item.	Choose an item.
RES QO-2	RES QRI-10	I (or per-diem personnel) do not demonstrate a commitment to quality.	Choose an item.	Choose an item.	Choose an item.
RES QO-2	RES QRI-11	I (and per-diem personnel) am not aware of my developmental needs to enable me to meet the firm's quality objectives.	Choose an item.	Choose an item.	Choose an item.
RES QO-2	RES QRI-12	I do not provide opportunities for me or per-diem personnel to participate in professional development activities that enable us to accomplish our assigned responsibilities.	Choose an item.	Choose an item.	Choose an item.
RES QO-2	RES QRI-13	Learning and development programs are not delivered in a frequency, length, or format that ensures participant engagement and advancement of learning objectives.	Choose an item.	Choose an item.	Choose an item.
RES QO-2	RES QRI-14	I do not encourage professional development (for example, passing the CPA exam) for per-diem personnel.	Choose an item.	Choose an item.	Choose an item.
RES QO-2	RES QRI-15	Newly hired per-diem personnel are not aware of firm policies and procedures.	Choose an item.	Choose an item.	Choose an item.
RES QO-2	RES QRI-16	I (or per-diem personnel) am not aware of my responsibilities and professional development opportunities.	Choose an item.	Choose an item.	Choose an item.
RES QO-2	RES QRI-17	Training programs are insufficiently focused on meeting my developmental needs and those of per-diem personnel, including competence in technical and specialized ("soft") skills.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
EP QO-2	QM sec. 10, par. .33b	Personnel demonstrate a commitment to quality through their actions and behaviors, develop and maintain the appropriate competence to perform their roles, and are held accountable or recognized through timely evaluations, compensation, promotion, and other incentives.			

## Human Resources

RES QO-2	RES QRI-18	When performing an engagement in a specialized industry, I do not have sufficient current knowledge to perform quality engagements in that specialized industry.	Choose an item.	Choose an item.	Choose an item.
RES QO-2	RES QRI-19	I (or per-diem personnel) do not have the appropriate continuing professional education (CPE) required by law, regulation, or professional standards (which requires competency), for the work I perform (for example, <i>Government Auditing Standards</i> requirements, AICPA Employee Benefit Plan Audit Quality Center requirements, and so on).	Choose an item.	Choose an item.	Choose an item.
RES QO-2	RES QRI-20	I (or per-diem personnel) am not aware of changes in applicable professional standards, regulations, or firm policy.	Choose an item.	Choose an item.	Choose an item.
RES QO-2	RES QRI-21	I do not take responsibility for identifying and communicating the qualifications necessary to accomplish professional responsibilities at each professional level within the firm.	Choose an item.	Choose an item.	Choose an item.
RES QO-2	RES QRI-22	I (or per-diem personnel) am not properly incentivized to maintain a high degree of assurance quality on my engagements.	Choose an item.	Choose an item.	Choose an item.
RES QO-2	RES QRI-23	The firm's compensation, recognition, and promotion mechanisms are ineffective in recognizing and rewarding competency (and, by association, quality), at any level.	Choose an item.	Choose an item.	Choose an item.
RES QO-2	RES QRI-24	The firm does not have established criteria for advancement to the next level of responsibility.	Choose an item.	Choose an item.	Choose an item.
RES QO-2	RES QRI-25	I do not hold myself or per-diem personnel accountable for actions or behaviors that negatively affect quality, such as failing to demonstrate a commitment to quality, developing and maintaining the competence to perform my role, or implementing the firm's responses as designed.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
EP QO-2	QM sec. 10, par. .33b	Personnel demonstrate a commitment to quality through their actions and behaviors, develop and maintain the appropriate competence to perform their roles, and are held accountable or recognized through timely evaluations, compensation, promotion, and other incentives.			

### Human Resources

RES QO-2	RES QRi-26	Quality objectives and per-diem personnel's commitment to quality are not a component of advancement and compensation determinations.	Choose an item.	Choose an item.	Choose an item.
RES QO-2	RES QRi-27	Evaluations are not undertaken at appropriate intervals and do not include competency areas and other performance measures.	Choose an item.	Choose an item.	Choose an item.
RES QO-2	RES QRi-28	Positive actions or behaviors demonstrated by per-diem personnel are not adequately or consistently recognized (such as through compensation, promotion, other incentives, or, as appropriate, simple or informal incentives that are not based on monetary rewards).	Choose an item.	Choose an item.	Choose an item.

RES QO-3	QM sec. 10, par. .33c	Individuals are obtained from external sources (that is, the network, another network firm, or a service provider) when the firm does not have sufficient or appropriate personnel to enable the operation of the firm's system of quality management or performance of engagements.			
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### Human Resources

RES QO-3	RES QRi-29	Individuals are not obtained from external sources (that is, the network, another network firm, or a service provider) when the firm does not have sufficient or appropriate per-diem personnel to enable the operation of the firm's system of quality management or performance of engagements.	Choose an item.	Choose an item.	Choose an item.
RES QO-3	RES QRi-30	I rely on an external workforce, network firm, or component auditor that do not perform the engagement or a portion of the engagement in accordance with applicable standards.	Choose an item.	Choose an item.	Choose an item.
RES QO-3	RES QRi-31	Alternate work forces, network resources, component auditors, and other third-party resources, are not properly evaluated for competence and capabilities or trained in the performance of engagements, prior to utilization.	Choose an item.	Choose an item.	Choose an item.
RES QO-3	RES QRi-32	I lack an appropriate network or third-party providers to enable the operation of the firm's system of quality management or performance of engagements.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
RES QO-3	QM sec. 10, par. .33c	Individuals are obtained from external sources (that is, the network, another network firm, or a service provider) when the firm does not have sufficient or appropriate personnel to enable the operation of the firm's system of quality management or performance of engagements.			

### Human Resources

RES QO-3	RES QRI-33	I lack internal expertise to perform adequate monitoring of the firm's system of quality management.	Choose an item.	Choose an item.	Choose an item.
RES QO-3	RES QRI-34	I am not able to timely identify the need for network or third-party providers to enable the operation of the firm's system of quality management or performance of engagements.	Choose an item.	Choose an item.	Choose an item.
RES QO-3	RES QRI-35	I am not able to timely evaluate the appropriateness of network or third-party providers to enable the operation of the firm's system of quality management or performance of engagements.	Choose an item.	Choose an item.	Choose an item.

RES QO-4	QM sec. 10, par. .33d	Engagement team members, including an engagement partner, who have appropriate competence and capabilities to consistently perform quality engagements, including being given sufficient time, are assigned to each engagement.			
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### Human Resources

RES QO-4	RES QRI-36	Engagement team members, including myself, are assigned to engagements when they do not have appropriate competence and capabilities to consistently perform quality engagements, including being given sufficient time.	Choose an item.	Choose an item.	Choose an item.
RES QO-4	RES QRI-37	I do not have sufficient time or there are insufficient staffing levels to consistently perform quality engagements.	Choose an item.	Choose an item.	Choose an item.
RES QO-4	RES QRI-38	I do not fulfill all required responsibilities.	Choose an item.	Choose an item.	Choose an item.
RES QO-4	RES QRI-39	I (or per-diem personnel) suffer "impairment" due to physical or mental considerations (that is, fatigue, burnout, distractions, not taking paid time off, unreasonable workload compression, insufficient succession planning, and so on) such that we are unable to effectively perform relevant responsibilities.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
RES QO-4	QM sec. 10, par. .33d	Engagement team members, including an engagement partner, who have appropriate competence and capabilities to consistently perform quality engagements, including being given sufficient time, are assigned to each engagement.			

### Human Resources

RES QO-4	RES QRI-40	I perpetuate errors on engagements that cause nonconformity with the applicable professional standards.	Choose an item.	Choose an item.	Choose an item.
RES QO-4	RES QRI-41	I (or per-diem personnel) do not collectively have the appropriate competence and capabilities in the circumstances of the particular engagement.	Choose an item.	Choose an item.	Choose an item.
RES QO-4	RES QRI-42	I do not properly supervise per-diem personnel, including in a remote working environment.	Choose an item.	Choose an item.	Choose an item.

RES QO-5	QM sec. 10, par. .33e	Individuals who have appropriate competence and capabilities, including sufficient time, to perform such activities are assigned to perform activities within the system of quality management.			
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### Human Resources

RES QO-5	RES QRI-43	Individuals who do not have appropriate competence and capabilities, including sufficient time, are assigned to perform activities within the SOQM.	Choose an item.	Choose an item.	Choose an item.
RES QO-5	RES QRI-44	Insufficient resources are allocated to developing and maintaining an effective SOQM.	Choose an item.	Choose an item.	Choose an item.
RES QO-5	RES QRI-45	I (or per-diem personnel) lack the competence and capabilities to undertake assigned roles relevant to the SOQM.	Choose an item.	Choose an item.	Choose an item.
RES QO-5	RES QRI-46	I (or per-diem personnel) do not have sufficient time dedicated to operational and monitoring functions of QM activities.	Choose an item.	Choose an item.	Choose an item.
RES QO-5	RES QRI-47	I (or per-diem personnel) are not adequately trained to perform assigned QM activities.	Choose an item.	Choose an item.	Choose an item.

QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk
RES QO-6	QM sec. 10, par. .33f	Appropriate technological resources are obtained or developed, implemented, maintained, and used to enable the operation of the firm's system of quality management and the performance of engagements.			
<b>Technological Resources</b>					
RES QO-6	RES QRi-48	Technological resources to enable the operation of the firm's system of quality management and the performance of engagements that are obtained or developed are not appropriate, are not implemented, are not maintained, are not used, or are used inappropriately.	Choose an item.	Choose an item.	Choose an item.
RES QO-6	RES QRi-49	I fail to invest in and use technological resources that have the ability to enhance quality as well as other benefits, such as efficiency.	Choose an item.	Choose an item.	Choose an item.
RES QO-6	RES QRi-50	Inadequate consideration is given to the features, security, controls, and so on when obtaining or developing technological resources that are used in the system of quality management, including engagement performance.	Choose an item.	Choose an item.	Choose an item.
RES QO-6	RES QRi-51	Appropriate levels of security and controls are not maintained over IT applications (for example, access to technology tools is granted to unauthorized professionals or is untimely revoked due to reassignments, role changes, terminations, and other unforeseen circumstances).	Choose an item.	Choose an item.	Choose an item.
RES QO-6	RES QRi-52	I (or per-diem personnel) are not properly trained to use the firm's technological resources (for example, computer-assisted auditing tool) resulting in overreliance or improper evaluation of results.	Choose an item.	Choose an item.	Choose an item.
RES QO-6	RES QRi-53	I (or per-diem personnel) do not have the appropriate competence and capabilities to use technological resources effectively.	Choose an item.	Choose an item.	Choose an item.
RES QO-6	RES QRi-54	Software applications used in assurance, including the firm's engagement performance methodology, are not performing as designed (including version enhancements).	Choose an item.	Choose an item.	Choose an item.
RES QO-6	RES QRi-55	Engagement and client data is susceptible to cyber breaches, loss, or theft of IT equipment.	Choose an item.	Choose an item.	Choose an item.
RES QO-6	RES QRi-56	IT failure prevents access to engagement files.	Choose an item.	Choose an item.	Choose an item.

QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk
RES QO-6	QM sec. 10, par. .33f	Appropriate technological resources are obtained or developed, implemented, maintained, and used to enable the operation of the firm's system of quality management and the performance of engagements.			

### Technological Resources

RES QO-6	RES QRi-57	I (or per-diem personnel) use personal devices for client work, which presents risks to the control and security of data.	Choose an item.	Choose an item.	Choose an item.
RES QO-6	RES QRi-58	There are disparate, unintegrated systems that do not carry data properly from one to the other or use inconsistent data.	Choose an item.	Choose an item.	Choose an item.
RES QO-6	RES QRi-59	Appropriate technological resources are not obtained or are inappropriately developed, are not maintained or lack the necessary IT infrastructure and IT processes for the resource to function effectively, or are not used appropriately.	Choose an item.	Choose an item.	Choose an item.
RES QO-6	RES QRi-60	Technological resources are altered inappropriately.	Choose an item.	Choose an item.	Choose an item.
RES QO-6	RES QRi-61	Technological resources become obsolete.	Choose an item.	Choose an item.	Choose an item.
RES QO-6	RES QRi-62	I do not develop, implement, or maintain the necessary technological resources to meet my quality objectives and enable per-diem personnel to carry out quality engagements.	Choose an item.	Choose an item.	Choose an item.
RES QO-6	RES QRi-63	In obtaining, developing, implementing, and maintaining an IT application, I do not appropriately assess or respond to findings related to the use of the application.	Choose an item.	Choose an item.	Choose an item.
RES QO-6	RES QRi-64	Per-diem personnel are not given timely access to the necessary technological resources to complete their assigned responsibilities.	Choose an item.	Choose an item.	Choose an item.

QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk
RES QO-7	QM sec. 10, par. .33g	Appropriate intellectual resources are obtained or developed, implemented, maintained, and used to enable the operation of the firm's system of quality management and the consistent performance of quality engagements, and such intellectual resources are consistent with professional standards and applicable legal and regulatory requirements, where applicable.			
<b>Intellectual Resources</b>					
RES QO-7	RES QRi-65	Intellectual resources to enable the operation of the firm's SOQM and the consistent performance of quality engagements are obtained or developed inappropriately, are not implemented, are not maintained, are not used, or are used inappropriately, and such intellectual resources are not consistent with professional standards and applicable legal and regulatory requirements.	Choose an item.	Choose an item.	Choose an item.
RES QO-7	RES QRi-66	I rely on third-party practice aids without appropriately customizing them for the nature and circumstances of my practice.	Choose an item.	Choose an item.	Choose an item.
RES QO-7	RES QRi-67	I do not receive updated quality management materials on a regular basis.	Choose an item.	Choose an item.	Choose an item.
RES QO-7	RES QRi-68	I subscribe only to general quality management materials that are not industry specific.	Choose an item.	Choose an item.	Choose an item.
RES QO-7	RES QRi-69	The intellectual information, including data obtained from third parties or developed by the firm is not appropriately vetted, is incorrect, or is not updated timely.	Choose an item.	Choose an item.	Choose an item.
RES QO-7	RES QRi-70	I do not develop, implement, or maintain the necessary intellectual resources – such as software licenses, research tools, and access to professional literature – to meet my quality objectives and enable per-diem personnel to carry out quality engagements.	Choose an item.	Choose an item.	Choose an item.
RES QO-7	RES QRi-71	Spreadsheets that I (or per-diem personnel) develop for the firm to use contain errors or employ inappropriate methodologies.	Choose an item.	Choose an item.	Choose an item.
RES QO-7	RES QRi-72	Appropriate templates are not used properly in the performance of engagements.	Choose an item.	Choose an item.	Choose an item.
RES QO-7	RES QRi-73	I do not have effective policies or procedures regarding the use of the firm's intellectual resources.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
RES QO-7	QM sec. 10, par. .33g	Appropriate intellectual resources are obtained or developed, implemented, maintained, and used to enable the operation of the firm's system of quality management and the consistent performance of quality engagements, and such intellectual resources are consistent with professional standards and applicable legal and regulatory requirements, where applicable.			
<b>Intellectual Resources</b>					
RES QO-7	RES QRI-74	Information used to monitor the system of quality management is not complete, accurate, or updated with respect to engagement data (for example, engagement listings, classification of engagements, personnel hours, personnel experience, and so on).	Choose an item.	Choose an item.	Choose an item.
RES QO-7	RES QRI-75	I do not timely identify and train myself and per-diem personnel on changes in applicable professional standards and legal and regulatory requirements.	Choose an item.	Choose an item.	Choose an item.
RES QO-8	QM sec. 10, par. .33h	Human, technological, or intellectual resources from service providers are appropriate for use in the firm's system of quality management and in performing engagements, taking into account preceding quality objectives RES QO-4 through RES QO-7.			
<b>Service Providers</b>					
RES QO-8	RES QRI-76	Human, technological, or intellectual resources from service providers are not appropriate for use in the firm's SOQM and in the performance of engagements, taking into account the quality objectives in paragraph 33d, e, f, and g of QM section 10, <i>A Firm's System of Quality Management</i> .	Choose an item.	Choose an item.	Choose an item.
RES QO-8	RES QRI-77	Service provider updates are incorrect, do not reflect changes in professional standards and applicable legal and regulatory requirements, are not timely, or are not accepted by the firm.	Choose an item.	Choose an item.	Choose an item.
RES QO-8	RES QRI-78	Third-party audit team members used on audit engagements are unfamiliar with the firm's policies and procedures.	Choose an item.	Choose an item.	Choose an item.
RES QO-8	RES QRI-79	I fail to timely and effectively determine whether a resource from a service provider is appropriate for use in the firm's system of quality management or in the performance of engagements, or take the actions necessary for use to be appropriate.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
RES QO-8	QM sec. 10, par. .33h	Human, technological, or intellectual resources from service providers are appropriate for use in the firm's system of quality management and in performing engagements, taking into account preceding quality objectives RES QO-4 through RES QO-7.			
<b>Service Providers</b>					
RES QO-8	RES QRI-80	I fail to timely and effectively consider (i) the nature of the resources provided by service providers, (ii) how and the extent to which they will be used by the firm, and (iii) the general characteristics of the service providers used by the firm (for example, the varying types of other professional services firms that are used).	Choose an item.	Choose an item.	Choose an item.
RES QO-8	RES QRI-81	I am not adequately monitoring service providers used in the firm's system of quality management.	Choose an item.	Choose an item.	Choose an item.
RES QO-8	RES QRI-82	Client data confidentiality is violated as a result of a data breach when using vendor cloud platforms or other external service providers.	Choose an item.	Choose an item.	Choose an item.
RES QO-8	RES QRI-83	I do not timely and effectively communicate information to the service provider or to per-diem personnel necessary for the resource to function effectively.	Choose an item.	Choose an item.	Choose an item.
RES QO-8	RES QRI-84	I do not maintain the appropriate policies, procedures, and open channels of communication regarding when and to what extent service providers are or can be used in the firm's system of quality management.	Choose an item.	Choose an item.	Choose an item.
RES QO-8	RES QRI-85	I am unable to obtain sufficient service providers or obtain them timely (for example, EQ reviewers).	Choose an item.	Choose an item.	Choose an item.
RES QO-8	RES QRI-86	I over-rely on or do not properly evaluate the work of service providers.	Choose an item.	Choose an item.	Choose an item.

**Table 3: Required and Suggested Quality Responses – Resources**

QRe#	Quality Response	Note, Tip, or Warning
<b>Resources</b>		
<b>Human Resources</b>		
<b>RES QRe-1</b>	<b>Policy: I ascertain that there are sufficient personnel with the competence, capabilities, and commitment to ethical principles necessary to perform engagements in accordance with professional standards and applicable legal and regulatory requirements. These personnel enable the firm to issue reports that are appropriate in the circumstances.</b>	<b>NOTE:</b> Depending on the firm’s engagements, “sufficient personnel” may consist of only you.
<b>RES QRe-2</b>	<b>Policy: I only hire per-diem personnel who have characteristics that enable them to perform with competence.</b>	
<b>RES QRe-2.01</b>	I set criteria regarding such factors as education, licensure or certification, and experience, and hire only per-diem personnel who meet the criteria.	
<b>RES QRe-3</b>	<b>Policy: I maintain capabilities and competencies required for an engagement.</b>	
<b>RES QRe-3.01</b>	Such competencies include the following: <ul style="list-style-type: none"> <li>• An understanding of the role of the firm’s system of quality management and the AICPA Code of Professional Conduct</li> <li>• An understanding of the performance, supervision, and reporting aspects of the engagement</li> <li>• An understanding of the applicable accounting, auditing, or attestation professional standards, including those standards directly related to the industry in which a client operates</li> <li>• An understanding of the industry in which a client operates, including the industry’s organization and operating characteristics, to identify the areas of high or unusual risk associated with an engagement and to evaluate the reasonableness of industry-specific estimates</li> <li>• Skills that indicate sound professional judgment, including the ability to exercise professional skepticism</li> <li>• An understanding of how organizations are dependent on or enabled by information technologies and the manner in which information systems are used to record and maintain financial information</li> </ul>	

QRe#	Quality Response	Note, Tip, or Warning
<b>Resources</b>		
RES QRe-4	<b>Policy: I conduct evaluations of myself and per-diem personnel to maintain accountability to actions, behaviors, and competence.</b>	
RES QRe-5	<b>Policy: When an engagement is found to be materially nonconforming after report issuance (for example, through firm monitoring, peer review, or regulatory inspection), I either take relevant CPE and require an EQ review on future engagements in that industry or area or forego future engagements in that industry or area.</b>	
RES QRe-6	<b>Policy: I maintain the appropriate licenses, including firm licenses or permits to perform the engagements I accept, including for states other than where I primarily practice public accounting, as applicable.</b>	<p><b>TIP:</b> The website <a href="http://www.CPAMobility.org">www.CPAMobility.org</a> may be helpful in determining the necessary individual licenses.</p> <p><b>NOTE:</b> Per-diem personnel may need to be licensed, depending on the work that they are doing and the requirements of the relevant state board.</p>
RES QRe-6.01	If I accept an audit, review, compilation, or preparation in an industry in which I do not have recent experience, I consult appropriate resources (for example, literature, the AICPA Technical Hotline, or a suitably qualified external person) to determine the extent of changes relevant to the engagement. When determined to be necessary, I engage a suitably qualified external person as a member of the engagement team to assist with the performance of the engagement.	
RES QRe-6.02	In all states in which I practice, I (a) am licensed under the same names under which I practice; (b) obtain licenses or permits that are effective before I issue any reports in that state; (c) consider variations in licensing bodies' rules and regulations and how they affect the firm's need to be licensed in that state; and (d) address any restrictions on practice imposed by the licensing bodies.	
RES QRe-7	<b>Policy: The firm assigns appropriate personnel with the necessary competence and capabilities to perform engagements in accordance with professional standards and applicable legal and regulatory requirements and enables the firm to issue reports that are appropriate in the circumstances.</b>	<p><b>TIP:</b> A mix of CPE delivery methods (such as self-study, webcasts, live presentations) enhances the learning experience.</p>

QRe#	Quality Response	Note, Tip, or Warning
<b>Resources</b>		
<b>RES QRe-7.01</b>	I document my compliance with such CPE requirements and obtain and retain documentation for per-diem personnel regarding theirs.	<b>WARNING:</b> The requirement for CPE is intended to address competency, not just maintaining a CPA license. Accordingly, all per-diem personnel, not just those with a CPA license, should take relevant CPE. Taking more CPE than required by state law or regulation may be needed to obtain the necessary competency.
<b>RES QRe-7.02</b>	Regardless of whether it is otherwise required, I take – and require per-diem personnel, if any, to take – ethics CPE periodically [ <i>specify, for example, the minimum required by state law or regulation</i> ].	<b>NOTE:</b> This applies to non-licensed firm personnel, as well.
<b>RES QRe-7.03</b>	I am a member of a state society or the AICPA, or both, including AICPA section memberships as relevant.	<b>TIP:</b> This best practice provides you with a wealth of resources, such as access to the AICPA Technical Hotline and Ethics Hotline, professional journals, audit tools, and more.
<b>RES QRe-7.04</b>	I stay informed of changes in accounting, auditing, and Statements on Standards for Accounting and Review Services (SSARSs) as well as independence, integrity, and objectivity requirements (for example, by reading professional publications and taking relevant CPE).	<b>WARNING:</b> Be sure that the changes are reflected in your practice – for example, engagement letters, representation letters, reports on financial statements, and so on.
<b>RES QRe-7.05</b>	In all states where the firm practices, the firm (a) is licensed under the same names under which it practices; (b) must obtain licenses or permits that are effective before any reports are issued in the state; (c) considers variations in licensing bodies' rules and regulations and how they affect the firm's need to be licensed in that state; and (d) addresses any restrictions on practice imposed by the licensing bodies.	
<b>RES QRe-7.06</b>	All personnel must comply with the professional education requirements of the boards of accountancy in states where they are licensed, and as applicable, the AICPA, the state CPA society, and <i>Government Auditing Standards</i> .	
<b>RES QRe-8</b>	<b>Policy: I recognize the need to hold personnel accountable or to adjust compensation or other incentives based on per-diem personnel's performance.</b>	

QRe#	Quality Response	Note, Tip, or Warning
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## Resources

### Technological Resources

<b>RES QRe-9</b>	<b>Policy: I consider the use of technology to enable the firm’s system of quality management.</b>	
<b>RES QRe-9.01</b>	Before obtaining technological resources, I conduct research into its usability in the engagements it performs.	
<b>RES QRe-9.02</b>	<p>After implementing a new technological resource, I monitor and evaluate its effectiveness in increasing quality in the firm’s engagements. This assessment considers the following:</p> <ul style="list-style-type: none"> <li>• The data inputs are complete and appropriate.</li> <li>• Data confidentiality is preserved.</li> <li>• The IT application operates as designed and achieves the purpose for which it is intended.</li> <li>• The outputs of the IT application achieve the purpose for which it will be used.</li> <li>• The general IT controls necessary to support the IT application’s continued operation as designed are appropriate.</li> <li>• The need for specialized skills to use the IT application effectively, including the training of individuals who will use the IT application, is met.</li> <li>• The need to develop procedures that set out how the IT application operates is met.</li> </ul>	
<b>RES QRe-9.03</b>	For technologies that do not enhance quality, I look for new technologies that would have a greater impact on the quality of engagements.	
<b>RES QRe-9.04</b>	I document evaluations, monitoring, and decisions of technologies to be used in the SOQM.	
<b>RES QRe-10</b>	<b>Policy: I do not use IT applications or features of IT applications until I have determined that they operate appropriately and achieve the purpose for which they are intended.</b>	

QRe#	Quality Response	Note, Tip, or Warning
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## Resources

RES QRe-10.01	The firm uses passwords to restrict access to electronic engagement documentation and timely update authorization when per-diem personnel status has changed.	
RES QRe-10.02	The firm stores, safeguards, and maintains electronic and paper-based information.	
RES QRe-10.03	The firm performs regular back-up routines for electronic documentation stored on servers, laptops, and smart phones.	
RES QRe-10.04	I take responsibility for managing the technical resource applications and any program changes to those resources.	

## Intellectual Resources

RES QRe-11	<b>Policy: The firm uses quality management materials (for example, an audit and accounting manual, standardized forms, checklists, templates, practice aids, tools, questionnaires, and the like) to assist with the operation of the firm's system of quality management and the consistent performance of quality engagements.</b>	
RES QRe-11.01	<p>I perform procedures to determine that, regardless of whether the firm develops its own quality management materials or obtains it from a third-party provider</p> <ul style="list-style-type: none"> <li>• the material is reliable and suitable for the practice.</li> <li>• the quality management materials are up to date.</li> <li>• modifications to the package and to individual forms are appropriate.</li> <li>• the forms being used are appropriate for the engagement.</li> </ul>	
RES QRe-11.02	I evaluate the use of intellectual resources to ensure that they remain appropriate for the operation of quality engagements.	

QRe#	Quality Response	Note, Tip, or Warning
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## Resources

RES QRe-11.03	I determine that intellectual resources follow professional standards as well as legal and regulatory requirements that apply to the engagements that I perform.	
RES QRe-11.04	Before obtaining intellectual resources, I consider the impact on the firm's SOQM and on the engagements that I perform.	
RES QRe-11.05	I document my considerations regarding intellectual resources.	
RES QRe-11.06	I take responsibility for managing the intellectual resources and any changes to those resources.	

## Service Providers

RES QRe-12	<b>Policy: I commit to devoting sufficient time and resources to timely obtain resources from service providers when internal resources are not sufficient to meet the quality objectives.</b>	
RES QRe-12.01	I evaluate the use of resources that I have received from service providers to meet my quality objectives and its appropriateness for my SOQM.	
RES QRe-12.02	Before using a resource (whether human, technical, or intellectual) from a service provider, I establish an understanding of the nature of the resources provided, how and the extent to which they will be used by the firm, and the general characteristics of the service provider, including their experience and reputation.	
RES QRe-12.03	For resources I have already been receiving, I monitor and evaluate the effectiveness and impact on the quality of my objectives.	
RES QRe-12.04	For resources that are not appropriate, I work with service providers to remediate the resources or look to other means for these resources.	
RES QRe-12.05	I establish an understanding with the service provider regarding the frequency and accuracy of updates to the resources they are providing.	

QRe#	Quality Response	Note, Tip, or Warning
<b>Resources</b>		
<b>RES QRe-12.06</b>	I consider 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).	<b>TIP:</b> In determining whether a resource is appropriate, the firm may consider the results of an examination engagement performed on that resource and whether the criteria used to evaluate the resource in that examination are suitable. Paragraph .27 of AT-C section 105, <i>Concepts Common to All Attestation Engagements</i> , <sup>1</sup> requires suitable criteria for reasonably consistent measurement or evaluation of the resource within the context of professional judgment. Without the frame of reference provided by suitable criteria, any conclusion is open to individual interpretation and misunderstanding. Criteria promulgated by a body designated by the council of the AICPA under the AICPA Code of Professional Conduct are, by definition, considered to be suitable (see paragraphs .A44–.A46 of AT-C section 105. This includes criteria developed by the AICPA.
<b>RES QRe-12.07</b>	I establish an understanding with the service provider regarding information needed from the firm for the resource to operate effectively. I monitor compliance.	
<b>RES QRe-12.08</b>	I document the use of resources from service providers and the evaluation of the resources provided.	

## Table 4: Example of Evaluated Quality Risks and Linked Responses – Resources

The following table provides examples of evaluated quality risks and linked responses to each quality risk. Please note that this is for illustrative purposes only. Your firm may identify other risks, may evaluate the likelihood and impact of those risks differently, and may choose other responses. The examples are not complete; if all you do is copy and paste these examples, your SOQM will not provide reasonable assurance of achieving its objectives.

The following examples illustrate the documentation of establishing quality objectives, evaluating quality risks, and designing the firm’s responses to those quality risks. This is not a complete picture of an established SOQM. The implementation, evaluation, and monitoring of the system will need to be documented and established, as well.

Resources							
QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk	Quality Response	QRe#
<b>RES QO-1</b>		Personnel are hired, developed, and retained and have the competence and capabilities to 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>RES QO-1</b>	<b>RES QRi-2</b>	I (or per-diem personnel) do not have the competence and capabilities to perform activities or carry out responsibilities in relation to the operation of the firm’s SOQM.	Low	High	Yes	I ascertain that there are sufficient personnel with the competence, capabilities, and commitment to ethical principles necessary to perform engagements in accordance with professional standards and applicable legal and regulatory requirements. These personnel enable the firm to issue reports that are appropriate in the circumstances.	RES QRe-1
<b>RES QO-2</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.					
<b>RES QO-2</b>	<b>RES QRi-10</b>	I (or per-diem personnel) do not demonstrate a commitment to quality.	Low	High	Yes	I conduct evaluations of myself and per-diem personnel to maintain accountability to actions, behaviors, and competence.	RES QRe-4

<sup>1</sup> All AT-C sections can be found in AICPA *Professional Standards*.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk	Quality Response	QRe#
RES QO-6	Appropriate technological resources are obtained or developed, implemented, maintained, and used to enable the operation of the firm's system of quality management and the performance of engagements.						
RES QO-6	RES QRI-54	Software applications used in assurance, including the firm's engagement performance methodology, are not performing as designed (including version enhancements).	Medium	High	Yes	<p>After implementing new technological resources, I monitor and evaluate its effectiveness in increasing quality in the firm's engagements. This assessment considers the following:</p> <ul style="list-style-type: none"> <li>• The data inputs are complete and appropriate.</li> <li>• Data confidentiality is preserved.</li> <li>• The IT application operates as designed and achieves the purpose for which it is intended.</li> <li>• The outputs of the IT application achieve the purpose for which it will be used.</li> <li>• The general IT controls necessary to support the IT application's continued operation as designed are appropriate.</li> <li>• The need for specialized skills to use the IT application effectively, including the training of individuals who will use the IT application, is met.</li> <li>• The need to develop procedures that set out how the IT application operates is met.</li> </ul>	RES QRe-9.02

# Information and Communication

**Table 1: Required Objectives – Information and Communication**

QO #	Ref:	Quality Objectives
I&C QO-1	QM sec. 10, par. .34a	The information system identifies, captures, processes, and maintains relevant and reliable information that supports the SOQM, whether from internal or external sources.
I&C QO-2	QM sec. 10, par. .34b	The culture of the firm recognizes and reinforces the responsibility of personnel to exchange information with the firm and with one another.
I&C QO-3	QM sec. 10, par. .34c	Relevant and reliable information is exchanged throughout the firm and with engagement teams, including the following: <ol style="list-style-type: none"> <li>i. Information is communicated to personnel and engagement teams, and the nature, timing, and extent of the information is sufficient to enable them to understand and carry out their responsibilities relating to performing activities within the SOQM or engagements.</li> <li>ii. Personnel and engagement teams communicate information to the firm when performing activities within the SOQM or engagements.</li> </ol>
I&C QO-4	QM sec. 10, par. .34d	Relevant and reliable information is communicated to external parties, including the following: <ol style="list-style-type: none"> <li>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.</li> <li>ii. Information is communicated externally when required by law, regulation, or professional standards or to support external parties’ understanding of the SOQM.</li> </ol>

**Table 2: Required Quality Objectives and Potential Quality Risks – Information and Communication**

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
<b>I&amp;C QO-1</b>	<b>QM sec. 10, par. .34a</b>	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.			
<b>I&amp;C QO-1</b>	<b>I&amp;C QRI-1</b>	The information system does not identify, capture, process, or maintain relevant and reliable information that supports the SOQM, whether from internal or external sources.	Choose an item.	Choose an item.	Choose an item.
<b>I&amp;C QO-1</b>	<b>I&amp;C QRI-2</b>	Electronic and paper-based information is not appropriately stored and maintained.	Choose an item.	Choose an item.	Choose an item.
<b>I&amp;C QO-1</b>	<b>I&amp;C QRI-3</b>	The integrity of the SOQM may be compromised, including data loss due to system failure or theft, either physical or cyber; unauthorized changes; and version control.	Choose an item.	Choose an item.	Choose an item.
<b>I&amp;C QO-1</b>	<b>I&amp;C QRI-4</b>	Information that the firm identifies, captures, processes, and maintains is not complete, accurate, timely, or valid to enable the proper functioning of the firm’s SOQM and to support decisions regarding the SOQM.	Choose an item.	Choose an item.	Choose an item.
<b>I&amp;C QO-1</b>	<b>I&amp;C QRI-5</b>	Procedures to identify, capture, process, maintain, and communicate information are not established or clearly defined.	Choose an item.	Choose an item.	Choose an item.
<b>Monitoring</b>					
<b>I&amp;C QO-1</b>	<b>I&amp;C QRI-6</b>	Information from the resolution of complaints and allegations received is not communicated and used to improve the firm’s SOQM.	Choose an item.	Choose an item.	Choose an item.
<b>I&amp;C QO-1</b>	<b>I&amp;C QRI-7</b>	Remediation efforts to resolve deficiencies in information and communication remain unresolved or improvements are delayed or not completed.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
I&C QO-1	QM sec. 10, par. .34a	The information system identifies, captures, processes, and maintains relevant and reliable information that supports the system of quality management, whether from internal or external sources.			
<b>Change Management</b>					
I&C QO-1	I&C QRi-8	I do not have effective tools for communicating information and changes regarding the SOQM (for example, policies, procedures, and changes to the SOQM) to those who need to be informed.	Choose an item.	Choose an item.	Choose an item.
I&C QO-1	I&C QRi-9	I do not communicate changes to the SOQM to personnel and engagement teams to the extent that the changes are relevant to their responsibilities.	Choose an item.	Choose an item.	Choose an item.
I&C QO-1	I&C QRi-10	I do not have effective tools for communicating changes in accounting standards, professional standards, law, or regulation.	Choose an item.	Choose an item.	Choose an item.
<b>Laws and Regulations</b>					
I&C QO-1	I&C QRi-11	I fail to identify a requirement to communicate with an external party.	Choose an item.	Choose an item.	Choose an item.
I&C QO-1	I&C QRi-12	The information needed to verify compliance with the firm's SOQM (for example, licensure status, independence compliance, continuing professional education [CPE], and so on) is not adequately maintained or checked for completeness.	Choose an item.	Choose an item.	Choose an item.
I&C QO-1	I&C QRi-13	I do not check the information provided by per-diem personnel regarding compliance with the firm's SOQM (for example, licensure status, independence compliance, CPE, and so on) for accuracy.	Choose an item.	Choose an item.	Choose an item.
I&C QO-1	I&C QRi-14	The firm's SOQM fails to develop and evolve in line with changes in the regulatory framework, changes in the nature and circumstances of the firm, best practices, and so on (for example, the firm relies on manual processes, which become too difficult to maintain as the size of the firm grows).	Choose an item.	Choose an item.	Choose an item.
<b>Other</b>					
I&C QO-1	I&C QRi-15	A failure to exchange information between me and per-diem personnel results in quality issues.	Choose an item.	Choose an item.	Choose an item.
I&C QO-1	I&C QRi-16	A failure to exchange information results in lost opportunities to improve the firm's quality management system.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
I&C QO-2	QM sec. 10, par. .34b	The culture of the firm recognizes and reinforces the responsibility of personnel to exchange information with the firm and with one another.			
I&C QO-2	I&C QRI-17	The culture of the firm does not recognize nor reinforce the responsibility of personnel to exchange information with the firm and with one another.	Choose an item.	Choose an item.	Choose an item.
<b>Tone at the Top</b>					
I&C QO-2	I&C QRI-18	My actions, informal communications, and responses imply that certain aspects of the firm's SOQM are not important or necessary.	Choose an item.	Choose an item.	Choose an item.
I&C QO-2	I&C QRI-19	I do not recognize and reinforce the responsibility of per-diem personnel to exchange information within the firm and one another.	Choose an item.	Choose an item.	Choose an item.
I&C QO-2	I&C QRI-20	I fail to communicate to relevant per-diem personnel changes in independence and other SOQM requirements and the firm's policies or procedures to address such changes.	Choose an item.	Choose an item.	Choose an item.
I&C QO-2	I&C QRI-21	I am affected by email fatigue.	Choose an item.	Choose an item.	Choose an item.
I&C QO-2	I&C QRI-21	I fail to establish a culture of collaboration among teams and across the firm.	Choose an item.	Choose an item.	Choose an item.
I&C QO-2	I&C QRI-22	My actions, informal communications, and responses imply that certain aspects of the firm's SOQM are not important or necessary.	Choose an item.	Choose an item.	Choose an item.
<b>Engagement Team and Personnel Responsibility</b>					
I&C QO-2	I&C QRI-23	I inadequately communicate quality issues to per-diem personnel.	Choose an item.	Choose an item.	Choose an item.
I&C QO-2	I&C QRI-24	Per-diem personnel are not informed about where improvements can be made to the quality of the work they perform.	Choose an item.	Choose an item.	Choose an item.
I&C QO-2	I&C QRI-25	I fail to communicate the responsibility for implementing the firm's policies and procedures to per-diem personnel.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
I&C QO-2	QM sec. 10, par. .34b	The culture of the firm recognizes and reinforces the responsibility of personnel to exchange information with the firm and with one another.			
I&C QO-2	I&C QRI-26	I fail to communicate information to the EQ reviewer or individuals providing consultation.	Choose an item.	Choose an item.	Choose an item.
I&C QO-2	I&C QRI-27	I fail to communicate matters to component auditors in accordance with the firm's policies or procedures, including matters related to quality management at the engagement level.	Choose an item.	Choose an item.	Choose an item.
I&C QO-3	QM sec. 10, par. .34c	Relevant and reliable information is exchanged throughout the firm and with engagement teams, including the following: i. Information is communicated to personnel and engagement teams, and the nature, timing, and extent of the information is sufficient to enable them to understand and carry out their responsibilities relating to performing activities within the system of quality management or engagements. ii. Personnel and engagement teams communicate information to the firm when performing activities within the system of quality management or engagements.			
I&C QO-3	I&C QRI-28	Unreliable information is exchanged throughout the firm.	Choose an item.	Choose an item.	Choose an item.
I&C QO-3	I&C QRI-29	Relevant and reliable information is not communicated to per-diem personnel. The nature, timing, and extent of the information is not sufficient to enable them to understand and carry out their responsibilities relating to performing activities within the SOQM or engagements.	Choose an item.	Choose an item.	Choose an item.
I&C QO-3	I&C QRI-30	Per-diem personnel do not communicate information to me when performing activities within the SOQM or engagements.	Choose an item.	Choose an item.	Choose an item.
<b>Engagement Team and Personnel Responsibility</b>					
I&C QO-3	I&C QRI-31	Per-diem personnel do not communicate concerns with how the firm is responding to identified quality management risks (for example, concerns about the firm's processes for assigning personnel to engagements). [Note that the information provided through these communications may indicate a deficiency in the firm's SOQM.]	Choose an item.	Choose an item.	Choose an item.
I&C QO-3	I&C QRI-32	Relevant and reliable information is not sufficiently communicated to per-diem personnel to enable them to understand and execute their responsibilities within the SOQM.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
I&C QO-3	QM sec. 10, par. .34c	Relevant and reliable information is exchanged throughout the firm and with engagement teams, including the following: i. Information is communicated to personnel and engagement teams, and the nature, timing, and extent of the information is sufficient to enable them to understand and carry out their responsibilities relating to performing activities within the system of quality management or engagements. ii. Personnel and engagement teams communicate information to the firm when performing activities within the system of quality management or engagements.			
I&C QO-3	I&C QRI-33	I fail to adequately inform per-diem personnel of their roles and responsibilities at the engagement level.	Choose an item.	Choose an item.	Choose an item.
I&C QO-3	I&C QRI-34	Per-diem personnel fail to communicate relevant or reliable information to the firm when performing activities within the SOQM or engagements.	Choose an item.	Choose an item.	Choose an item.
I&C QO-3	I&C QRI-35	Per-diem personnel do not receive timely feedback on performance.	Choose an item.	Choose an item.	Choose an item.
I&C QO-3	I&C QRI-36	I fail to communicate or make readily available firm policies to per-diem personnel.	Choose an item.	Choose an item.	Choose an item.
I&C QO-3	I&C QRI-37	I do not update the firm's policies and procedures consistently and timely.	Choose an item.	Choose an item.	Choose an item.
I&C QO-3	I&C QRI-38	Firm policies, procedures, and methodologies are not clearly documented, organized in a logical format, or easily accessible, so they are difficult for per-diem personnel to locate, follow, and comply with.	Choose an item.	Choose an item.	Choose an item.
I&C QO-3	I&C QRI-39	Learning and development programs are not delivered in a frequency, length, and format that ensures participant engagement.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
I&C QO-4	QM sec. 10, par. .34d	Relevant and reliable information is communicated to external parties, including the following: i. Information is communicated by the firm to or within the firm's network or to service providers, if any, enabling the network or service providers to fulfill their responsibilities relating to the network requirements or network services or resources provided by them. ii. Information is communicated externally when required by law, regulation, or professional standards or to support external parties' understanding of the system of quality management.			
I&C QO-4	I&C QRI-40	Relevant and reliable information is not communicated to external parties. Irrelevant or unreliable information is communicated to external parties.	Choose an item.	Choose an item.	Choose an item.
I&C QO-4	I&C QRI-41	Information is not communicated by the firm to or within the firm's network or to service providers, if any, preventing the network or service providers from fulfilling their responsibilities relating to the network requirements or network services or resources provided by them.	Choose an item.	Choose an item.	Choose an item.
I&C QO-4	I&C QRI-42	Information is not communicated externally when required by law, regulation, or professional standards, or to support external parties' understanding of the SOQM.	Choose an item.	Choose an item.	Choose an item.
<b>Incoming and Outgoing Communication</b>					
I&C QO-4	I&C QRI-43	I do not obtain relevant and reliable information from service providers that is necessary to establish and maintain the design, implementation, and operation of the firm's SOQM.	Choose an item.	Choose an item.	Choose an item.
I&C QO-4	I&C QRI-44	I fail to communicate information to my network that can result in quality issues either at the firm or elsewhere in the network.	Choose an item.	Choose an item.	Choose an item.
I&C QO-4	I&C QRI-45	I fail to communicate relevant and reliable information to service providers.	Choose an item.	Choose an item.	Choose an item.
I&C QO-4	I&C QRI-46	Improper information may be disseminated to external parties.	Choose an item.	Choose an item.	Choose an item.
I&C QO-4	I&C QRI-47	Engagement quality issues are not communicated to firm clients timely or at all.	Choose an item.	Choose an item.	Choose an item.

QO#	QRI #	Quality Risk	Likelihood	Impact	Quality Risk
I&C QO-4	QM sec. 10, par. .34d	<p>Relevant and reliable information is communicated to external parties, including the following:</p> <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> </ul>			

### Laws and Regulations

I&C QO-4	I&C QRI-48	I am unaware of the firm’s communication responsibilities under professional standards or legal and regulatory requirements, or both.	Choose an item.	Choose an item.	Choose an item.
I&C QO-4	I&C QRI-49	Information is not communicated externally when required by law, regulation, or professional standards, or to support external parties’ understanding of the SOQM.	Choose an item.	Choose an item.	Choose an item.
I&C QO-4	I&C QRI-50	Law, regulation, or relevant ethical requirements include provisions addressing the duty of confidentiality, and the firm does not prevent violations from happening; detect violations that have occurred; or take corrective measures when aware of violations.	Choose an item.	Choose an item.	Choose an item.

### Service Providers and the SOQM

I&C QO-4	I&C QRI-51	I do not obtain an understanding of the SOQM in place at service providers.	Choose an item.	Choose an item.	Choose an item.
I&C QO-4	I&C QRI-52	Deficiencies in the SOQM of service providers that are identified by the firm are not brought to the attention of the counterparty in a prompt manner.	Choose an item.	Choose an item.	Choose an item.

**Table 3: Required and Suggested Quality Responses – Information and Communication**

QRe#	Quality Response	Note, Tip, or Warning
<b>Information and Communication</b>		
<b>I&amp;C QRe-1</b>	<p><b>Policy: I communicate information about my SOQM as prescribed by my policies and procedures with the following external parties if requested:</b></p> <ul style="list-style-type: none"> <li>• <b>Management or those charged with governance of a potential new client</b></li> <li>• <b>External oversight authorities</b></li> <li>• <b>Group auditors</b></li> <li>• <b>Other users of our firm engagement reports</b></li> </ul>	<p><b>NOTE:</b> Establishing policies or procedures that address when it is appropriate to communicate with external parties about the firm’s SOQM is a required response. [QM sec. 10, par. .35e(i)]</p> <p>Even if there are no requirements in law, regulation, or professional standards to communicate externally, or the firm does not perform audits of financial statements of issuers, the firm is expected to at least determine whether it is appropriate to communicate with external parties about the SOQM.</p>
<b>I&amp;C QRe-1.01</b>	I communicate information to service providers, or network firms, necessary for them to fulfill their responsibilities.	
<b>I&amp;C QRe-1.02</b>	I communicate information externally when required by law, regulation, or professional standards (for example, if I become aware of noncompliance with laws and regulations by a client and relevant ethical requirements require the firm to report the noncompliance to an appropriate external authority).	<p><b>TIP:</b> Know your client base; securities law or regulation requires the firm to communicate certain matters to those charged with governance.</p>
<b>I&amp;C QRe-1.03</b>	I am responsible for identifying external parties with whom the firm is required to communicate, and the information required to be communicated.	<p><b>NOTE:</b> Confidentiality law or regulation prohibits disclosure of certain information – stay alert.</p>
<b>I&amp;C QRe-2</b>	<b>Policy: I share information about the firm’s SOQM externally only after I have reviewed the information for accuracy and relevance and confirmed that sharing does not breach confidentiality requirements.</b>	<p><b>NOTE:</b> This is a required response. [QM sec. 10, par. .35e(ii)]</p>
<b>I&amp;C QRe-2.01</b>	When communicating with external parties, I provide the results of monitoring activities and external inspections and how the firm has remediated identified deficiencies, if applicable.	<p>Paragraphs .A137–.A138 of QM section 10 address other factors to consider when developing your communication policy.</p>

QRe#	Quality Response	Note, Tip, or Warning
<b>I&amp;C QRe-2.02</b>	I periodically review the information provided through the firm’s website for accuracy, completeness, and balance.	<p>Forms of external communication include</p> <ul style="list-style-type: none"> <li>• a web page,</li> <li>• social media or webcasts,</li> <li>• discussions between the engagement team and those charged with governance, and</li> <li>• a transparency or audit quality report.</li> </ul> <p><b>NOTE:</b> A transparency report may be required by law or regulation and specifies the nature of the information required to be included.</p>
<b>I&amp;C QRe-3</b>	<b>Policy: The firm has established communication channels to facilitate communication across the firm (for example, weekly touch base with per-diem personnel).</b>	<b>NOTE:</b> Individuals assigned operational responsibility for the SOQM, compliance with independence requirements, and the monitoring and remediation process are required to have a direct line of communication to the individual assigned ultimate responsibility and accountability for the SOQM. [QM sec. 10, par. .23]
<b>I&amp;C QRe-3.01</b>	I, including per-diem personnel, communicate information about the operation of firm’s responses (for example, concerns about the firm’s process for assigning personnel to engagements).	
<b>I&amp;C QRe-3.02</b>	When I becomes aware of information that affects a specific engagement, I inform relevant per-diem personnel.	

## Table 4: Example of Evaluated Quality Risks and Linked Responses – Information and Communication

The following table provides examples of evaluated quality risks and linked responses to each quality risk. Please note that this is for illustrative purposes only. Your firm may identify other risks, may evaluate the likelihood and impact of those risks differently, and may choose other responses. The examples are not complete; if all you do is copy and paste these examples, your SOQM will not provide reasonable assurance of achieving its objectives.

The following examples illustrate the documentation of establishing quality objectives, evaluating quality risks, and designing the firm’s responses to those quality risks. This is not a complete picture of an established SOQM. The implementation, evaluation, and monitoring of the system will need to be documented and established, as well.

Information and Communication							
QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk	Quality Response	QRe#
<b>I&amp;C QO-1</b>		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.					
<b>I&amp;C QO-1</b>	<b>I&amp;C QRi-11</b>	I fail to identify a requirement to communicate with an external party.	Low	High	Yes	I communicate information externally when required by law, regulation, or professional standards (for example, if I become aware of noncompliance with laws and regulations by a client, and relevant ethical requirements require the firm to report the noncompliance to an appropriate external authority).	I&C QRe-1.02
<b>I&amp;C QO-4</b>		Relevant and reliable information is communicated to external parties, including the following: i. Information is communicated by the firm to or within the firm’s network or to service providers, if any, enabling the network or service providers to fulfill their responsibilities relating to the network requirements or network services or resources provided by them. ii. Information is communicated externally when required by law, regulation, or professional standards or to support external parties’ understanding of the system of quality management.					
<b>I&amp;C QO-4</b>	<b>I&amp;C QRi-49</b>	Information is not communicated externally when required by law, regulation, or professional standards, or to support external parties’ understanding of the SOQM.	Medium	High	Yes	Policy: I communicate information about our SOQM as prescribed by my policies and procedures with the following external parties if requested: • Management or those charged with governance of a potential new client • External oversight authorities • Group auditors • Other users of our firm engagement reports	I&C QRe-1

## Exhibit: Relevant Responses From Other Components

The following is a list of information and communication quality risks that can be addressed by quality responses (firm policies) from other components.

Quality risk #	Quality risk	Quality response	QRe#
<b>Governance and Leadership</b>			
<b>I&amp;C QRI-36</b>	I fail to communicate or make readily available firm policies to per-diem personnel.	I document the firm's SOQM policies and procedures and communicate them to the firm's personnel, if any.	GOV QRe-2
<b>I&amp;C QRI-38</b>	Firm policies, procedures, and methodologies are not clearly documented, organized in a logical format, or easily accessible, so they are difficult for per-diem personnel to locate, follow, and comply with.	I devote sufficient and appropriate resources to achieve the objectives of the firm's SOQM.	GOV QRe-5
<b>Relevant Ethical Requirements</b>			
<b>I&amp;C QRI-20</b>	I fail to communicate to relevant per-diem personnel changes in the independence and other SOQM requirements and the firm's policies or procedures to address such changes.	I communicate independence requirements to per-diem firm personnel and, when applicable, others subject to them.	RER QRe-2
<b>I&amp;C QRI-12</b>	The information needed to verify compliance with the firm's SOQM (for example, licensure status, independence compliance, CPE, and so on) is not adequately maintained or checked for completeness.	I obtain written confirmation, upon hire and at least annually, of compliance with its policies and procedures regarding independence from all per-diem personnel required to be independent by relevant requirements.	RER QRe-6
<b>Engagement Acceptance and Continuance</b>			
<b>I&amp;C QRI-4</b>	Information that the firm identifies, captures, processes, and maintains is not complete, accurate, timely, or valid to enable the proper functioning of the firm's SOQM and to support decisions regarding the SOQM.	I document how issues relating to acceptance or continuance of client relationships were resolved.	EAC QRe-6

Quality risk #	Quality risk	Quality response	QRe#
<b>Engagement Performance</b>			
<b>I&amp;C QRI-33</b>	I fail to adequately inform per-diem personnel of their roles and responsibilities at the engagement level.	I use quality management materials (for example, an audit and accounting manual, standardized forms, checklists, templates, practice aids, tools, questionnaires, and the like) to assist with engagement performance.	EP QRe-1 and RES QRe-11
<b>I&amp;C QRI-40</b>	Relevant and reliable information is not communicated to external parties. Irrelevant or unreliable information is communicated to external parties.	I establish, document, and follow procedures when using external personnel, such as from other firms, for audit or accounting engagements.	EP QRe-7
<b>I&amp;C QRI-26</b>	I fail to communicate information to the EQ reviewer or individuals providing consultation.	I establish procedures addressing the nature, timing, extent, and documentation of the EQ review.	EP QRe-10
<b>I&amp;C QRI-26</b>	I fail to communicate information to the EQ reviewer or individuals providing consultation.	I require that consultation take place when appropriate; that sufficient and appropriate resources are available to enable appropriate consultation to take place; that all the relevant facts known to the engagement team are provided to those consulted; that the nature, scope, and conclusions of such consultations are documented; and that conclusions resulting from such consultations are implemented.	EP QRe-11
<b>Resources</b>			
<b>I&amp;C QRI-24</b>	Per-diem personnel are not informed of where improvements can be made to the quality of the work they perform.	I conduct evaluations of myself and per-diem personnel to maintain accountability to actions, behaviors, and competence.	RES QRe-4
<b>I&amp;C QRI-45</b>	I fail to communicate relevant and reliable information to service providers.	I do not use IT applications or features of IT applications until I have determined that they operate appropriately and achieve the purpose for which they are intended.	RES QRe-10

# Chapter 4 – Monitoring and Remediation Process

The monitoring and remediation process involves an ongoing consideration and evaluation of the appropriateness of the design, implementation, and the effectiveness of the operation of a firm’s system of quality management (SOQM) and a firm’s compliance with its QM policies and procedures. A monitoring and remediation process

- provides relevant, reliable, and timely information about the design, implementation, and operation of the SOQM, and
- enables the firm to take appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis.

The information provided also enables the firm – specifically, the managing partner – to evaluate whether the SOQM provides reasonable assurance that

- the firm adheres to professional standards and regulatory and legal requirements, and
- reports that are issued by the firm are appropriate in the circumstances.

The purpose of the monitoring and remediation process is to provide feedback on how the SOQM is working, determine whether changes are needed and, if so, implement the necessary changes. Monitoring activities include inspections of engagement documentation, reports and financial statements, and inspections of other components covered by the firm’s SOQM. Reviews of engagement documentation, reports and financial statements can occur

- before the report is issued (engagement quality [EQ] review or other pre-issuance review) or
- after the report is issued (post-issuance review).

EQ review and other pre-issuance reviews are not, in and of themselves, suitable inspection procedures for monitoring. However, to the extent that information obtained from a pre-issuance review is evaluated in terms of what happens on other engagements and

addressed systemically – that is monitoring. Post-issuance reviews can occur on an engagement-by-engagement basis or at set times during the year.

The difference between engagement performance QM procedures and monitoring QM procedures is that monitoring activities are designed to determine the root cause of the problem and then fix the problem systemically. Engagement performance QM procedures fix the problem at the engagement level but does not look for the root cause, nor are engagement performance QM procedures designed to fix the problem systemically.

**TIP:** Monitoring and remediation is a continuous process. If you are in the frame of mind to always be looking for errors and root causes, that’s monitoring. Send an email to the firm when you see something – that is monitoring, communicating, and documenting. Save the email in a “monitoring” folder and you have documented as you go along so you can “get credit” for what you already do.



**NOTE:** Inspection of engagement documentation, reports and financial statements is only one type of monitoring activity. Don’t forget other aspects, such as resources (human, intellectual, and technological), continuing professional education (CPE), licenses, and the requirements of audit quality centers of which your firm is a member.

The rest of this chapter presents suggested policies and procedures for the monitoring and remediation process. These suggested policies and procedures may not be all inclusive; you need to tailor this information based on your firm. The firm does not have to apply the risk assessment process to monitoring and remediation. However, in evaluating and concluding on the SOQM, the firm does need to consider whether the monitoring and remediation process achieves the objectives of

- providing relevant, reliable, and timely information about the design, implementation, and operation of the SOQM, and
- enabling the firm to take appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis.

Policy or procedure	Note, Tip, or Warning
<p><b>Policy: I have a monitoring and remediation process designed to provide relevant, reliable, and timely information about the design, implementation, and operation of the SOQM and enable me to take appropriate actions to respond to identified deficiencies, so deficiencies are remediated on a timely basis. (QM sec. 10, par. .36)</b></p>	
<p><b>Policy: I accept operational responsibility for the firm’s monitoring and remediation process. (QM sec. 10, par. .21c(ii))</b></p>	
<p>I have the appropriate experience, knowledge, and sufficient time to fulfill the operational responsibility for the firm’s monitoring and remediation process. (QM sec. 10, par. .22)</p>	
<p>I consider the following factors and perform the following activities in determining that the firm’s QM policies and procedures and its methodologies remain relevant and adequate.</p> <ul style="list-style-type: none"> <li>• External factors <ul style="list-style-type: none"> <li>– Changes in professional standards or other regulatory requirements applicable to the firm’s practice</li> <li>– Changes in applicable AICPA membership requirements</li> </ul> </li> <li>• Internal indicators <ul style="list-style-type: none"> <li>– Mergers and divestitures of portions of the practice</li> <li>– Results of previous monitoring activities</li> <li>– Results of inspections and peer reviews</li> <li>– Review of litigation and regulatory enforcement actions against the firm and its personnel</li> <li>– Changes in firm operations and services</li> </ul> </li> <li>• Reviewing and determining that the firm’s practice aids are current and reflect recent professional pronouncements and changes in my practice</li> <li>• Reviewing CPE records to determine whether the classroom training and self-study programs I use are appropriate for the firm’s practice</li> <li>• Reviewing CPE records to determine that I am in compliance with the requirements of the AICPA and other applicable regulatory agencies</li> </ul>	<p><b>NOTE:</b> Examples of changes in professional standards that may result in a need to revise QM policies and procedures are changes to the AICPA Code of Professional Conduct.</p>

Policy or procedure	Note, Tip, or Warning
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**Policy: I design and perform monitoring activities that are sufficiently comprehensive to provide a basis for the identification of deficiencies. (QM sec. 10, par. .37)**

I determine the nature, timing, and extent of the monitoring activities considering the following: (QM sec. 10, par. .38)

- The reasons for the assessments given to the quality risks
- The design of the responses
- The design of the firm’s risk assessment process and monitoring and remediation process
- Changes in the SOQM
- The results of the firm’s evaluations of each engagement
- The results of previous monitoring activities
- Other relevant information, including the results of both internal and external inspections

**TIP:** Many firms perform their annual inspection at the same time of the year as their peer review is performed. Peer review is not a substitute for all monitoring activities. However, a firm may leverage inspections performed by peer review for some or all engagements for the period covered by the peer review. You will need to work with your peer reviewers to align the timing of the results of peer review inspections with the timing of the evaluation of your SOQM.

I maintain appropriate records that enable me to provide my peer reviewer with a complete list of engagements performed.

**WARNING:** Your records need sufficient detail to track your engagement population. For example, separately identify an employee benefit plan audit performed in conjunction with the employer audit. This also has implications for document retention and selecting engagements for inspection.

In accordance with the membership requirements of the AICPA Governmental Audit Quality Center and the AICPA Employee Benefit Plan Audit Quality Center, the engagement letter covering the firm’s peer review will require that the governmental audits and Employee Retirement Income Security Act (ERISA) employee benefit plan audits selected for review during the firm’s peer review are reviewed by someone who is employed by a member firm of the respective center. Also, information relative to the firm’s most recently accepted peer review is available to the public in accordance with the membership requirements of the respective centers.

Policy or procedure	Note, Tip, or Warning
<p>I perform a post-issuance review of selected engagements at least annually for compliance with my firm’s policies and procedures. The selected engagements represent a reasonable cross-section of the firm’s accounting and auditing practice using the following criteria [<i>specify criteria, which could include, but are not limited to, the following</i>]:</p> <ul style="list-style-type: none"> <li>• Engagements required to be selected during peer review (under Government Auditing Standards, ERISA, FDIC Improvement Act financial institutions, and examinations of service organizations [SOC 1<sup>®</sup> and SOC 2<sup>®</sup> engagements])</li> <li>• Specialized industries with emphasis given to high-risk engagements</li> <li>• Initial engagements</li> <li>• The tenure and experience of engagement partners</li> <li>• The types of engagements performed by the firm, and the extent of the firm’s experience in performing the type of engagement</li> <li>• The types of entities for which engagements are undertaken <ul style="list-style-type: none"> <li>– Entities operating in emerging industries</li> <li>– Entities operating in industries associated with a high level of complexity or judgment</li> <li>– Entities operating in an industry new to the firm</li> </ul> </li> <li>• An appropriate cross-section of the firm’s auditing and accounting partners, taking into account partners who have had negative results in the prior inspections or peer reviews and partners who have specialties other than accounting and auditing, but still service accounting and auditing clients</li> <li>• The results of the firm’s evaluations of each engagement partner’s commitment to quality</li> <li>• Complaints or allegations about an engagement partner</li> <li>• Engagements from a merged-in practice</li> <li>• SEC registrants and other engagements performed in accordance with PCAOB standards</li> <li>• Engagements with areas that have been identified as findings in other reviews (that is, PCAOB, peer review, or prior internal inspection)</li> </ul>	<p><b>TIP:</b> The most effective monitoring focuses on areas of high risk (the risk that the firm isn’t meeting professional standards or its own QM policies and procedures).</p> <p><b>WARNING:</b> Remember — you don’t know what you don’t know. If you are new to an industry, or if very few people in the firm have experience in an industry or technical area, hiring an external inspector to perform all or some inspection procedures may be beneficial.</p>

The selected engagements are reviewed for compliance with the firm’s policies and procedures.

<sup>1</sup> All AU-C sections can be found in *AICPA Professional Standards*.

Policy or procedure	Note, Tip, or Warning
<p>In addition to engagement inspection and reviews, the firm’s monitoring activities include the following:</p> <ul style="list-style-type: none"> <li>• Reviewing compliance with the firm’s policies and procedures related to the risk assessment process; governance and leadership; relevant ethical responsibilities, including independence; acceptance and continuance of client relationships and specific engagements; engagement performance; resources (human, intellectual, and technological); and information and communication</li> <li>• Reviewing all policies and procedures and revising those affected by changes in professional standards or the nature of my practice</li> <li>• Inspecting documentation and contracts with the firm’s service providers to evaluate if the firm complied with the relevant policies and procedures</li> <li>• Checking and evaluating IT applications to evaluate if they are operating as intended and are fit for purpose</li> </ul>	<p><b>NOTE:</b> Inspection of engagement documentation, reports, and financial statements is only one part of monitoring. Don’t forget other aspects such as CPE, licenses, and so on.</p>
<p><b>Policy: I evaluate findings to determine whether deficiencies exist, including within the monitoring and remediation process. (QM sec. 10, par. .41)</b></p>	<p><b>NOTE:</b> When discussing the severity of issues with controls, the AICPA auditing, attestation, and accounting and review services standards use the terms deficiency, significant deficiency, and material weakness, whereas the peer review standards use the terms finding, deficiency, and significant deficiency. The use of the terms deficiency and significant deficiency in QM section 10 and this practice aid is consistent with the use in the AICPA auditing, attestation, and accounting and review services standards, adapted as necessary in the circumstances</p> <p><b>TIP:</b> See this helpful <a href="#">Q&amp;A Issues in Peer Review and Firm Systems of Quality Management</a> for additional discussion.</p>
<p>I evaluate the severity and pervasiveness of identified deficiencies by (QM sec. 10, par. .42)</p> <ul style="list-style-type: none"> <li>• investigating root causes of the identified deficiencies.</li> <li>• evaluating the effect of the identified deficiencies, individually and in aggregate, on the SOQM.</li> </ul>	<p><b>TIP:</b> Using a root cause analysis to evaluate deficiencies is a new requirement and will require you to take time to develop procedures to understand the underlying factors creating a deficiency (root cause). The nature and severity of an identified deficiency will influence the rigor of the procedures used to understand why the deficiency happened or how the situation that created the deficiency developed. You may also consider why deficiencies did not arise in other circumstances with similar characteristics. (See paragraphs .A181–.A185 of QM section 10)</p>

Policy or procedure	Note, Tip, or Warning
<p>I design and implement remedial actions to address identified deficiencies that are responsive to the results of the root cause analysis. (QM sec. 10, par. .43)</p>	
<p>I evaluate whether the remedial actions implemented to address previously identified deficiencies are effective. (QM section 10, par. .44)</p>	
<p>If this evaluation indicates that the remedial actions are not appropriately designed and implemented or are not effective, I take action to determine that the remedial actions are modified so they are effective. (QM sec. 10, par. .45)</p>	
<p>When the results of monitoring activities (through firm monitoring, peer review or regulatory inspection) indicate that a report may be inappropriate or that procedures were omitted during the performance of the engagement, I (QM sec. 10, par. .46)</p> <ul style="list-style-type: none"> <li>• determine what further action is appropriate to comply with relevant professional standards and applicable legal and regulatory requirements;</li> <li>• consider whether to obtain legal advice; and</li> <li>• take and document the appropriate action.</li> </ul>	<p><b>NOTE:</b> In such circumstances for audit engagements, <i>AU-C section 560, Subsequent Events and Subsequently Discovered Facts</i>, and <i>AU-C section 585, Consideration of Omitted Procedures After the Report Release Date</i>,<sup>1</sup> are applicable.</p>
<p>I summarize on a timely basis [<i>identify period, at least annually</i>] (a) a description of the monitoring activities performed; (b) the identified deficiencies, including their severity and pervasiveness; and (c) the remedial actions to address the identified deficiencies. (QM sec. 10, par. .48)</p>	<p><b>TIP:</b> The results of the monitoring process and related remediation efforts may include revisions and updates to the quality objectives, quality risks, and quality responses. Monitoring acts as feedback to the SOQM so the SOQM can be enhanced and tailored based on the firm’s evolving risks and changing circumstances.</p>
<p>I evaluate and conclude one of the following on the effectiveness of the SOQM, at least annually: (QM sec. 10, par. .55)</p> <ol style="list-style-type: none"> <li>a. The system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved.</li> <li>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.</li> <li>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.</li> </ol>	

If I conclude there are identified deficiencies or that the SOQM does not provide the firm with reasonable assurance that the objectives of the system of quality management are achieved, I do the following: (QM sec. 10, par. .56)

- Take prompt and appropriate action
- Communicate to
  - per-diem personnel to the extent that it is relevant to their responsibilities, and
  - external parties in accordance with the firm’s policies and procedures

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**Policy: I prepare documentation of the SOQM that is sufficient to achieve the following: (QM sec. 10, par. .58)**

- Support a consistent understanding of the SOQM by per-diem personnel, including an understanding of their roles and responsibilities with respect to the SOQM and performing engagements.
- Support the consistent implementation and operation of the responses.
- Provide evidence of the design, implementation, and operation of the responses to support my evaluation of the SOQM.

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My documentation of the SOQM includes the following: (QM sec. 10, par. .59)

- Acknowledgment of my responsibility for the SOQM
- The firm’s quality objectives and quality risks
- A description of the responses and how the firm’s responses address the quality risks
- Regarding the monitoring and remediation process
  - evidence of the monitoring activities performed
  - the evaluation of findings, and identified deficiencies and their related root causes
  - remedial actions to address identified deficiencies and the evaluation of the design and implementation of such remedial actions
  - communications about monitoring and remediation
- The conclusions reached based on the evaluation of the SOQM and the basis for that conclusion.

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I document the monitoring and remediation process of the SOQM. Documentation is provided through the firm’s summary monitoring report, electronic databases, manual notes, checklists, and forms.

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Documentation addresses the following:

- Evidence of the monitoring activities performed, including a description of the monitoring activities performed to review and test compliance with firm QM policies and procedures relating to all the components of quality management, such as
  - review of the firm’s professional library and practice aids to determine that they were appropriate and up to date, and
  - interviews of a sample of personnel regarding the effectiveness of the firm’s professional development programs
- The evaluation of findings, and identified deficiencies and their related root causes
- Recommended remedial actions that are designed to prevent the recurrence of the deficiency to address identified deficiencies and the evaluation of the design and implementation of such remedial actions
- Communications about monitoring and remediation
- The conclusions reached based on the evaluation of the system and the basis for that conclusion

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**Policy: I retain documentation that provides evidence of the design, implementation, and operation of the SOQM for an appropriate period of time. (QM sec. 10, par. .61)**

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I retain monitoring and remediation documentation for a period of time sufficient to allow those monitoring the SOQM, including peer reviewers, to evaluate my compliance with my system. In the absence of other legal or regulatory requirements, I generally retain such documentation until the next peer review report has been completed.

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# Appendix – QM Section 10

## A Firm’s System of Quality Management

### Statements on Quality Management Standards

Statements on Quality Management Standards (previously titled Statements on Quality Control Standards) are issued by the Auditing Standards Board, the senior technical body of the AICPA designated to issue pronouncements on auditing, attestation, and quality control matters. The “Compliance With Standards Rule” (ET sec. 1.310.001) of the AICPA Code of Professional Conduct requires compliance with these standards when firms perform auditing and accounting services for a nonissuer.

(Supersedes SQCS No. 8.)

Source: SQMS No. 1; SQMS No. 3.

**Systems of quality management in compliance with this section are required to be designed and implemented by December 15, 2025, and the evaluation of the system of quality management required by [paragraphs .54–.55](#) is required to be performed within one year following December 15, 2025.**

### Introduction

#### Scope of This Section

- .01** This section deals with a firm’s responsibilities to design, implement, and operate a system of quality management for its accounting and auditing practice.
- .02** Engagement quality reviews form part of the firm’s system of quality management and
  - a. this section addresses the firm’s responsibility to establish policies or procedures addressing engagements that are required to be subject to engagement quality reviews.
  - b. [section 20](#), *Engagement Quality Reviews*, deals with the appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review.
- .03** Other professional standards include requirements for engagement partners and other engagement team members regarding quality management at the engagement level. For example, Statement on Auditing Standards (SAS) No. 146, *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards* (AU-C sec. 220), deals with the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial statements and the related responsibilities of the engagement partner. Other professional standards, including AT-C section 105, *Concepts Common to All Attestation Engagements*, and AR-C section 60, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services*, also establish requirements for the engagement partner for the management of quality at the engagement level.
- .04** This section is to be read in conjunction with the AICPA Code of Professional Conduct (AICPA code) and other relevant ethical requirements. Law, regulation, or relevant ethical requirements may establish responsibilities for the firm’s management of quality beyond those described in this section. (Ref: [par. .A1](#))
- .05** This section applies to audit and attestation engagements performed by a firm in accordance with *Government Auditing Standards*. This section does not apply to government audit organizations. Instead, those government audit organizations are subject to the quality control and assurance requirements of *Government Auditing Standards*.
- .06** This section applies to all firms that perform any engagement included in a firm’s accounting and auditing practice. The system of quality management that is established in accordance with the requirements of this section enables the consistent performance by the firm of all such engagements.

## The Firm's System of Quality Management

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

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

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

**.09** The risk-based approach is embedded in the requirements of this section through the following:

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

**.10** This section requires that, at least annually, the individual or individuals assigned ultimate responsibility and accountability for the system of quality management, on behalf of the firm, evaluate the system of quality

management and conclude whether the system of quality management provides the firm with reasonable assurance that the objectives of the system, stated in [paragraph .15a–b](#), are being achieved. (Ref: [par. .A4](#))

### Scalability

- .11** In applying a risk-based approach, the firm is required to take into account
- a. the nature and circumstances of the firm, and
  - b. the nature and circumstances of the engagements performed by the firm.

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

### Networks and Service Providers

- .12** This section addresses the firm's responsibilities when the firm
- a. belongs to a network, and the firm complies with network requirements or uses network services in the system of quality management or in performing engagements, or
  - b. uses resources from a service provider in the system of quality management or in performing engagements.

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

### Authority of This Section

- .13** [Paragraph .15](#) contains the objective of the firm in following this section. This section contains the following: (Ref: [par. .A5](#))
- a. Requirements designed to enable the firm to meet the objective in [paragraph .15](#) (Ref: [par. .A6](#))
  - b. Related guidance in the form of application and other explanatory material (Ref: [par. .A7](#))
  - c. Introductory material that provides context relevant to a proper understanding of this section
  - d. Definitions (Ref: [par. .A8](#))

## Effective Date

- .14** Systems of quality management in compliance with this section are required to be designed and implemented by December 15, 2025, and the evaluation of the system of quality management required by [paragraphs .54–.55](#) is required to be performed within one year following December 15, 2025.

## Objective

- .15** The objective of the firm is to design, implement, and operate a system of quality management for engagements performed by the firm in its accounting and auditing practice that provides the firm with reasonable assurance that
- the firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements and conduct engagements in accordance with such standards and requirements, and
  - engagement reports issued by the firm are appropriate in the circumstances.
- .16** The public interest is served by the consistent performance of quality engagements. The design, implementation, and operation of the system of quality management enables the consistent performance of quality engagements by providing the firm with reasonable assurance that the objectives of the system of quality management, stated in [paragraph .15a–b](#), are achieved. Quality engagements are achieved through planning and performing engagements and reporting on them in accordance with professional standards and applicable legal and regulatory requirements. Achieving the objectives of those standards and complying with the requirements of applicable law or regulation involves exercising professional judgment and, when applicable to the type of engagement, maintaining professional skepticism.

## Definitions

- .17** For purposes of the QM sections, the following terms have the meanings attributed as follows:

**Accounting and auditing practice.** A practice that performs engagements covered by this section, which are audit, attestation, review, compilation, and any other services for which standards have been promulgated by the AICPA Auditing Standards Board (ASB) or the AICPA Accounting and Review Services Committee (ARSC) under the “General Standards Rule” (ET sec. 1.300.001) or the “Compliance With Standards Rule” (ET sec. 1.310.001) of the AICPA code. (Ref: [par. .A9](#))

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

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

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

**Engagement partner.** The partner or other individual appointed by the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, when required, has the appropriate authority from a professional, legal, or regulatory body.

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

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

**Engagement team.** All partners and staff performing the engagement, and any other individuals who perform procedures on the engagement, excluding an external specialist<sup>1</sup> 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](#))

<sup>1</sup> Paragraph .06 of AU-C section 620, *Using the Work of an Auditor’s Specialist*, defines the term auditor’s specialist.

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

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

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

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

**Network firm.** As defined in “Definitions” in the AICPA code, a firm or other entity that belongs to a network. References to a *network firm* are to be read hereafter as “another firm or entity that belongs to the same network as the firm.”

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

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

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

**Professional standards.** Standards promulgated by the ASB or ARSC under the “General Standards Rule” or the “Compliance With Standards Rule” of the AICPA code or other standard-setting bodies that set auditing and attest standards applicable to the engagement being performed and relevant ethical requirements.

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

**Quality risk.** A risk that has a reasonable possibility of

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

**Reasonable assurance.** In the context of the QM sections, a high, but not absolute, level of assurance.

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

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

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

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

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

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

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

## Requirements

### Applying and Complying With Relevant Requirements

- .18 The firm should comply with each requirement of this section unless the requirement is not relevant to the firm because of the nature and circumstances of the firm or its engagements. (Ref: [par. .A29](#))
- .19 The individual or individuals assigned ultimate responsibility and accountability for the firm's system of quality management, and the individual or individuals assigned operational responsibility for the firm's system of quality management, should have an understanding of this section, including the application and other explanatory material, to understand the objective of this section and to apply its requirements properly.

### System of Quality Management

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

### Responsibilities

- .21 The firm should assign (Ref: [par. .A32–.A36](#))
  - a. ultimate responsibility and accountability for the system of quality management to the firm's CEO or the firm's managing partner (or equivalent) or, if appropriate, the firm's managing board of partners (or equivalent);
  - b. operational responsibility for the system of quality management; and
  - c. operational responsibility for specific aspects of the system of quality management, including
    - i. compliance with independence requirements, and (Ref: [par. .A37](#))
    - ii. the monitoring and remediation process.
- .22 In assigning the roles in paragraph .21, the firm should determine that the individual or individuals (Ref: [par. .A38](#))
  - a. have the appropriate experience, knowledge, influence, and authority within the firm and sufficient time to fulfill their assigned responsibility, and (Ref: [par. .A39](#))
  - b. understand their assigned roles and that they are accountable for fulfilling them.
- .23 The firm should determine that the individual or individuals assigned operational responsibility for the system of quality management, compliance with independence requirements, and the monitoring and remediation process have a direct line of communication to the individual or individuals assigned ultimate responsibility and accountability for the system of quality management.

### The Firm's Risk Assessment Process

- .24 The firm should design and implement a risk assessment process to establish quality objectives, identify and assess quality risks, and design and implement responses to address the quality risks. (Ref: [par. .A40–.A42](#))
- .25 The firm should establish the quality objectives specified by this section and any additional quality objectives considered necessary by the firm to achieve the objectives of the system of quality management. (Ref: [par. .A43–.A45](#))
- .26 The firm should identify and assess quality risks to provide a basis for the design and implementation of responses. In doing so, the firm should do the following:
  - a. Obtain an understanding of the conditions, events, circumstances, actions, or inactions that may adversely affect the achievement of the quality objectives, including the following: (Ref: [par. .A46–.A48](#))
    - i. With respect to the nature and circumstances of the firm, those relating to
      - 1. the complexity and operating characteristics of the firm;
      - 2. the strategic and operational decisions and actions, business processes, and business model of the firm;
      - 3. the characteristics and management style of leadership;
      - 4. the resources of the firm, including the resources provided by service providers;
      - 5. law, regulation, professional standards, and the environment in which the firm operates; and
      - 6. in the case of a firm that belongs to a network, the nature and extent of the network requirements and network services, if any
    - ii. With respect to the nature and circumstances of the engagements performed by the firm, those relating to
      - 1. the types of engagements performed by the firm and the reports to be issued, and
      - 2. the types of entities for which such engagements are undertaken

- b. Take into account how, and the degree to which, the conditions, events, circumstances, actions, or inactions in (a) may adversely affect the achievement of the quality objectives. (Ref: [par. .A49–.A50](#))
- .27** The firm should design and implement responses to address the quality risks in a manner that is based on, and responsive to, the reasons for the assessments given to the quality risks. The firm’s responses should include the responses specified in paragraph .35. However, the responses specified in paragraph .35 alone are not sufficient to achieve the objectives of the system of quality management. (Ref: [par. .A51–.A53](#))
- .28** The firm should establish policies or procedures that are designed to identify information that indicates additional quality objectives, or additional or modified quality risks or responses, are needed due to changes in the nature and circumstances of the firm or its engagements. If such information is identified, the firm should consider the information and, when appropriate, (Ref: [par. .A54–.A55](#))
- a. establish additional quality objectives or modify additional quality objectives previously established by the firm; (Ref: [par. .A56](#))
  - b. identify and assess additional quality risks, modify the quality risks, or reassess the quality risks; or
  - c. design and implement additional responses or modify the responses.

### Governance and Leadership

- .29** The firm should establish the following quality objectives that address the firm’s governance and leadership, which establishes the environment that supports the system of quality management:
- a. The firm demonstrates a commitment to quality through a culture that exists throughout the firm, which recognizes and reinforces the following: (Ref: [par. .A57–.A58](#))
    - i. The firm’s role in serving the public interest by consistently performing quality engagements
    - ii. The importance of professional ethics, values, and attitudes
    - iii. The responsibility of all personnel for quality relating to the performance of engagements or activities within the system of quality management and their expected behavior
    - iv. The importance of quality in the firm’s strategic decisions and actions, including the firm’s financial and operational priorities
  - b. Leadership is responsible and accountable for quality. (Ref: [par. .A59](#))

- c. Leadership demonstrates a commitment to quality through its actions and behaviors. (Ref: [par. .A60](#))
- d. The organizational structure and assignment of roles, responsibilities, and authority is appropriate to enable the design, implementation, and operation of the firm’s system of quality management. (Ref: [par. .A32–.A35](#) and [.A61](#))
- e. Resource needs, including financial resources, are planned for, and resources are obtained, allocated, or assigned in a manner that is consistent with the firm’s commitment to quality. (Ref: [par. .A62–.A63](#))

### Relevant Ethical Requirements

- .30** The firm should establish the following quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to independence: (Ref: [par. .A64–.A66](#) and [.A68](#))
- a. The firm and its personnel
    - i. understand the relevant ethical requirements to which the firm and the firm’s engagements are subject, and (Ref: [par. .A23](#))
    - ii. fulfill their responsibilities in relation to the relevant ethical requirements to which the firm and the firm’s engagements are subject.
  - b. Others, including the network, network firms, individuals in the network or network firms, or service providers, who are subject to the relevant ethical requirements to which the firm and the firm’s engagements are subject
    - i. understand the relevant ethical requirements that apply to them, and (Ref: [par. .A23](#) and [.A67](#))
    - ii. fulfill their responsibilities in relation to the relevant ethical requirements that apply to them. (Ref: [par. .A68](#))

### Acceptance and Continuance of Client Relationships and Specific Engagements

- .31** The firm should establish the following quality objectives that address the acceptance and continuance of client relationships and specific engagements:
- a. Judgments by the firm about whether to accept or continue a client relationship or specific engagement are appropriate based on the following:
    - i. Information obtained about the nature and circumstances of the engagement and the integrity and ethical values of the client (including management and, when appropriate, those charged with governance) that is sufficient to support such judgments (Ref: [par. .A69–.A74](#))

- ii. The firm’s ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements (Ref: [par. .A75–.A76](#))
- b. The financial and operational priorities of the firm do not lead to inappropriate judgments about whether to accept or continue a client relationship or specific engagement. (Ref: [par. .A77–.A78](#))

## Engagement Performance

- .32** The firm should establish the following quality objectives that address the performance of quality engagements:
- a. Engagement teams understand and fulfill their responsibilities in connection with the engagements, including, as applicable, the overall responsibility of engagement partners for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement. (Ref: [par. .A79](#))
  - b. The nature, timing, and extent of direction and supervision of engagement teams and review of the work performed is appropriate based on the nature and circumstances of the engagements and the resources assigned or made available to the engagement teams; the work performed by less experienced engagement team members is directed, supervised, and reviewed by suitably experienced engagement team members. (Ref: [par. .A80–.A81](#))
  - c. Engagement teams exercise appropriate professional judgment and, when applicable to the type of engagement, maintain professional skepticism. (Ref: [par. .A82](#))
  - d. Consultation on difficult or contentious matters is undertaken, and the conclusions agreed to are implemented. (Ref: [par. .A83–.A85](#))
  - e. Differences of opinion within the engagement team, or between the engagement team and the engagement quality reviewer or individuals performing activities within the firm’s system of quality management, are brought to the attention of the firm and resolved. (Ref: [par. .A86](#))
  - f. Engagement documentation is assembled on a timely basis after the date of the engagement report and is appropriately maintained and retained to meet the needs of the firm and comply with law, regulation, relevant ethical requirements, and professional standards. (Ref: [par. .A87–.A89](#))

## Resources

- .33** The firm should establish the following quality objectives that address appropriately obtaining, developing, using, maintaining, allocating, and assigning resources in a

timely manner to enable the design, implementation, and operation of the system of quality management: (Ref: [par. .A90–.A91](#))

## Human Resources

- a. Personnel are hired, developed, and retained and have the competence and capabilities to (Ref: [par. .A92–.A94](#))
  - i. consistently perform quality engagements, including having knowledge or experience relevant to the engagements the firm performs, or
  - ii. perform activities or carry out responsibilities in relation to the operation of the firm’s system of quality management.
- b. Personnel demonstrate a commitment to quality through their actions and behaviors, develop and maintain the appropriate competence to perform their roles, and are held accountable or recognized through timely evaluations, compensation, promotion, and other incentives. (Ref: [par. .A95–.A97](#))
- c. Individuals are obtained from external sources (that is, the network, another network firm, or a service provider) when the firm does not have sufficient or appropriate personnel to enable the operation of firm’s system of quality management or performance of engagements. (Ref: [par. .A98](#))
- d. Engagement team members, including an engagement partner, who have appropriate competence and capabilities to consistently perform quality engagements, including being given sufficient time, are assigned to each engagement. (Ref: [par. .A92–.A93](#) and [.A99–.A101](#))
- e. Individuals who have appropriate competence and capabilities, including sufficient time, to perform such activities are assigned to perform activities within the system of quality management.

## Technological Resources

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

## Intellectual Resources

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

## Service Providers

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

## Information and Communication

- .34** The firm should establish the following quality objectives that address obtaining, generating, or using information regarding the system of quality management and communicating information within the firm and to external parties on a timely basis to enable the design, implementation, and operation of the system of quality management: (Ref: [par. .A116](#))
  - a. The information system identifies, captures, processes, and maintains relevant and reliable information that supports the system of quality management, whether from internal or external sources. (Ref: [par. .A117–.A119](#))
  - b. The culture of the firm recognizes and reinforces the responsibility of personnel to exchange information with the firm and with one another. (Ref: [par. .A120](#))
  - c. Relevant and reliable information is exchanged throughout the firm and with engagement teams, including the following: (Ref: [par. .A120](#))
    - i. Information is communicated to personnel and engagement teams, and the nature, timing, and extent of the information is sufficient to enable them to understand and carry out their responsibilities relating to performing activities within the system of quality management or engagements.
    - ii. Personnel and engagement teams communicate information to the firm when performing activities within the system of quality management or engagements.
  - d. Relevant and reliable information is communicated to external parties, including the following:
    - i. Information is communicated by the firm to or within the firm's network or to service providers, if any, enabling the network or service providers to fulfill their responsibilities relating to the network requirements or network services or resources provided by them. (Ref: [par. .A121](#))
    - ii. Information is communicated externally when required by law, regulation, or professional standards or to support external parties' understanding of the system of quality management. (Ref: [par. .A122–.A123](#))

## Specified Responses

- .35** In designing and implementing responses in accordance with paragraph .27, the firm should include the following responses: (Ref: [par. .A124](#))
  - a. The firm establishes policies or procedures for
    - i. identifying, evaluating, and addressing threats to compliance with the relevant ethical requirements. (Ref: [par. .A125](#))
    - ii. identifying, communicating, evaluating, and reporting of any breaches of the relevant ethical requirements and appropriately responding to the causes and consequences of the breaches in a timely manner. (Ref: [par. .A126–.A127](#))
  - b. The firm obtains, at least annually, a documented confirmation of compliance with independence requirements from all personnel required by relevant ethical requirements to be independent.
  - c. The firm establishes policies or procedures for receiving, investigating, and resolving complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements or noncompliance with the firm's policies or procedures established in accordance with this section. (Ref: [par. .A128–.A129](#))
  - d. The firm establishes policies or procedures that address the following circumstances:
    - i. The firm becomes aware of information subsequent to accepting or continuing a client relationship or specific engagement that would have caused it to decline the client relationship or specific engagement had that information been known prior to accepting or continuing the client relationship or specific engagement. (Ref: [par. .A130–.A131](#))
    - ii. The firm is obligated by law or regulation to accept a client relationship or specific engagement. (Ref: [par. .A132–.A133](#))
  - e. The firm establishes policies or procedures that (Ref: [par. .A134–.A137](#))
    - i. address when it is appropriate to communicate with external parties about the firm's system of quality management, and (Ref: [par. .A138–.A140](#))
    - ii. address the information to be provided when communicating externally about the firm's system of quality management, including the nature, timing, and extent and appropriate form of communication. (Ref: [par. .A141–.A142](#))

- f. The firm establishes policies or procedures that address engagement quality reviews in accordance with [section 20](#) and requires an engagement quality review for the following:
  - i. Audits or other engagements for which an engagement quality review is required by law or regulation (Ref: [par. .A143](#))
  - ii. Audits or other engagements for which the firm determines that an engagement quality review is an appropriate response to address one or more quality risks (Ref: [par. .A144–.A147](#))

### **Monitoring and Remediation Process**

- .36** The firm should establish a monitoring and remediation process to (Ref: [par. .A148](#))
  - a. provide relevant, reliable, and timely information about the design, implementation, and operation of the system of quality management.
  - b. take appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis.

### **Designing and Performing Monitoring Activities**

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

- .39** The firm should include the inspection of completed engagements in its monitoring activities and should determine which engagements and engagement partners to select. In doing so, the firm should (Ref: [par. .A150](#) and [.A162–.A166](#))
  - a. take into account the matters in paragraph .38;
  - b. consider the nature, timing, and extent of other monitoring activities undertaken by the firm and the engagements and engagement partners subject to such monitoring activities; (Ref: [par. .A167–.A168](#)) and
  - c. select at least one completed engagement for each engagement partner on a cyclical basis determined by the firm.
- .40** The firm should establish policies or procedures that
  - a. require the individuals performing the monitoring activities to have the competence and capabilities, including sufficient time, to perform the monitoring activities effectively; and
  - b. address the objectivity of the individuals performing the monitoring activities, based on the premise that objectivity is enhanced when the engagement team members or the engagement quality reviewer of an engagement are not involved in performing any monitoring activities related to that engagement. (Ref: [par. .A169–.A173](#))

### **Evaluating Findings and Identifying Deficiencies**

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

### **Evaluating Identified Deficiencies**

- .42** The firm should evaluate the severity and pervasiveness of identified deficiencies by (Ref: [par. .A177](#) and [.A179–.A180](#))
  - a. investigating the root causes of the identified deficiencies. In determining the nature, timing, and extent of the procedures to investigate the root causes, the firm should take into account the nature of the identified deficiencies and their possible severity. (Ref: [par. .A181–.A185](#))
  - b. evaluating the effect of the identified deficiencies, individually and in aggregate, on the system of quality management.

### **Responding to Identified Deficiencies**

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

- .44 The individual or individuals assigned operational responsibility for the monitoring and remediation process should evaluate whether the remedial actions
  - 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. 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 .55b](#) 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 .35e](#). (Ref: [par. .A220](#))

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

## **Documentation**

- .58** The firm should prepare documentation of its system of quality management that is sufficient to (Ref: [par. .A224–.A226](#))
- a. support a consistent understanding of the system of quality management by personnel, including an understanding of their roles and responsibilities with respect to the system of quality management and performing engagements.
  - b. support the consistent implementation and operation of the responses.
  - c. provide evidence of the design, implementation, and operation of the responses to support the evaluation of the system of quality management by the individual or individuals assigned ultimate responsibility and accountability for the system of quality management.

- .59** In preparing documentation, the firm should include the following:
- a. Identification of the individual or individuals assigned ultimate responsibility and accountability for the system of quality management and operational responsibility for the system of quality management
  - b. The firm's quality objectives and quality risks (Ref: [par. .A227](#))
  - c. A description of the responses and how the firm's responses address the quality risks
  - d. Regarding the monitoring and remediation process,
    - i. evidence of the monitoring activities performed;
    - ii. the evaluation of findings, and identified deficiencies and their related root causes; and
    - iii. remedial actions to address identified deficiencies and the evaluation of the design and implementation of such remedial actions
    - iv. communications about monitoring and remediation
  - e. The conclusion reached pursuant to [paragraph .55](#) and the basis for that conclusion
- .60** The firm should document the matters in [paragraph .59](#) as they relate to network requirements or network services and the evaluation of the network requirements or network services in accordance with [paragraph .50b](#). (Ref: [par. .A228](#))
- .61** The firm should establish a period of time for the retention of documentation for the system of quality management that is sufficient to enable the firm and its peer reviewer to monitor the design, implementation, and operation of the firm's system of quality management or for a longer period if required by law or regulation.

## Application and Other Explanatory Material

### Scope of This Section (Ref: [par. .03–.04](#))

- .A1** The AICPA code establishes the fundamental principles of professional ethics, which include the obligation to act in a way that serves the public interest.<sup>2</sup> 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.

<sup>2</sup> Paragraph .01 of ET section 0.300.030.

## The Firm's System of Quality Management (Ref: [par. .07–.10](#))

- .A2** The firm may use different terminology or frameworks to describe the components of its system of quality management.
- .A3** Examples of the interconnected nature of the components include the following:
- The firm's risk assessment process sets out the process the firm is required to follow in implementing a risk-based approach across the system of quality management.
  - The governance and leadership component establishes the environment that supports the system of quality management.
  - The resources and information and communication components enable the design, implementation, and operation of the system of quality management.
  - The monitoring and remediation process is designed to monitor the entire system of quality management. The results of the monitoring and remediation process provide information that is relevant to the firm's risk assessment process.
  - There may be relationships between specific matters; for example, certain aspects of relevant ethical requirements are relevant to accepting and continuing client relationships and specific engagements.
- .A4** Reasonable assurance is obtained when the system of quality management reduces to an acceptably low level the risk that the objectives stated in [paragraph .15a–b](#) are not achieved. Reasonable assurance is not an absolute level of assurance because there are inherent limitations of a system of quality management. Such limitations include the fact that human judgment in decision making can be faulty and that breakdowns in a firm's system of quality management may occur, for example, due to human error or behavior or failures in IT applications.

### Authority of This Section (Ref: [par. .13](#))

- .A5** The objective of this section provides the context in which the requirements of this section are set, establishes the desired outcome of this section, and is intended to assist the firm in understanding what needs to be accomplished and, when necessary, the appropriate means of doing so.
- .A6** The requirements of this section are expressed using the word *should*.

- .A7** When necessary, the application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. In particular, it may
- explain more precisely what a requirement means or is intended to cover, and
  - include examples that illustrate how the requirements might be applied.

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

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

## Definitions

### **Accounting and Auditing Practice (Ref: [par. .17](#))**

- .A9** Standards promulgated by the ASB and ARSC that apply to engagements covered by this section comprise the following:
- Statements on Auditing Standards (SASs)
  - Statements on Standards for Attestation Engagements (SSAEs)
  - Statements on Standards for Accounting and Review Services (SSARs)

Although standards for other engagements may be promulgated by other AICPA technical committees, engagements performed in accordance with those standards are not encompassed in the definition of an *accounting and auditing practice*.

### **Deficiency (Ref: [par. .17](#))**

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

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

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

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

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

- The firm’s risk assessment process fails to identify information that indicates changes in the nature and circumstances of the firm and its engagements and the need to establish additional quality objectives or modify the quality risks or responses.
- The firm’s monitoring and remediation process is not designed or implemented in a manner that
  - provides relevant, reliable, and timely information about the design, implementation, and operation of the system of quality management.
  - enables the firm to take appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis.
- The individual or individuals assigned ultimate responsibility and accountability for the system of quality management do not undertake the annual evaluation of the system of quality management.

### **Engagement Team (Ref: [par. .17](#))**

- .A14** AU-C section 220, *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*,<sup>3</sup> 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

<sup>3</sup> Paragraphs .A15–.A21 of AU-C section 220, *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*. [As amended, effective concurrently with a firm’s implementation of SQMS Nos. 1 and 2 on December 15, 2025, by SQMS No. 3.]

are external to the firm (for example, engagement team members who are from network firms or are service providers, such as component auditors from firms not within the firm's network). Additionally, referred-to auditors are not members of the engagement team and referred-to auditors are not component auditors. Likewise, in an examination or review engagement, when a firm determines to make reference to the examination or review of another auditor, another accountant, or other practitioner,<sup>4</sup> those referred to are also not members of the engagement team. [As amended, effective concurrently with a firm's implementation of SQMS Nos. 1 and 2 on December 15, 2025, by SQMS No. 3.]

### **External Inspections (Ref: [par. .17](#))**

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

### **Findings (Ref: [par. .17](#))**

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

**.A17** [Paragraph .A157](#) provides examples of information from other relevant sources.

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

### **Firm (Ref: [par. .17](#))**

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

### **Network (Ref: [par. .17](#) and [.49](#))**

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

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

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

### **Personnel (Ref: [par. .17](#))**

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

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

### **Relevant Ethical Requirements (Ref: [par. .17](#) and [.30](#))**

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

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

<sup>4</sup> Paragraph .12 of AT-C section 105, *Concepts Common to All Attestation Engagements*, contains the definition of *other practitioner*. [Footnote added, effective concurrently with a firm's implementation of SQMS Nos. 1 and 2 on December 15, 2025, by SQMS No. 3.]

### Response (Ref: [par. .17](#))

- .A25** Policies are implemented through the actions of personnel and other individuals whose actions are subject to the policies (including engagement teams) or through their restraint from taking actions that would conflict with the firm's policies.
- .A26** Procedures may be mandated, through formal documentation or other communications, or may result from behaviors that are not mandated but, rather, are conditioned by the firm's culture. Procedures may be enforced through the actions permitted by IT applications or other aspects of the firm's IT environment.
- .A27** If the firm uses individuals external to the firm in the system of quality management or in performing engagements, different policies or procedures may need to be designed by the firm to address the actions of the individuals. SAS No. 146<sup>5</sup> provides guidance when different policies or procedures may need to be designed by the firm to address the actions of individuals external to the firm in the context of an audit of financial statements.

### Service Provider (Ref: [par. .17](#))

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

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

- .A29** Examples of when a requirement of this section may not be relevant to the firm include the following:
- The firm is a sole practitioner. For example, the requirements addressing the organizational structure and assigning roles, responsibilities, and authority within the firm; direction, supervision, and review; and addressing differences of opinion may not be relevant.
  - The firm only performs engagements that are preparation of financial statements engagements in accordance with AR-C section 70, *Preparation of Financial Statements*. For example, because the firm is not required to maintain independence for preparation of financial statements engagements, the requirement to obtain a documented confirmation of compliance with independence requirements from all personnel would not be relevant.

### System of Quality Management

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

- .A30** Quality management is not a separate function of the firm; it is the integration of a culture that demonstrates a commitment to quality with the firm's strategy, operational activities, and business processes. As a result, designing the system of quality management and the firm's operational activities and business processes in an integrated manner may promote a harmonious approach to managing the firm and enhance the effectiveness of quality management.
- .A31** The quality of professional judgments exercised by the firm is likely to be enhanced when individuals making such judgments demonstrate an attitude that includes an inquiring mind, which involves
- considering the source, relevance, and sufficiency of information obtained about the system of quality management, including information related to the nature and circumstances of the firm and its engagements, and
  - being open and alert to a need for further investigation or other action.

#### **Responsibilities (Ref: [par. .21–.22](#) and [.29d](#))**

- .A32** The governance and leadership component includes a quality objective that the firm has an organizational structure and assignment of roles, responsibilities, and authority that is appropriate to enable the design, implementation, and operation of the firm's system of quality management.
- .A33** Notwithstanding the assignment of responsibilities related to the system of quality management in accordance with [paragraph .21](#), the firm remains ultimately responsible for the system of quality management and holding individuals responsible and accountable for their assigned roles. For example, in accordance with [paragraphs .54–.55](#), although the firm assigns the evaluation of the system of quality management and conclusion thereon to the individual or individuals assigned ultimate responsibility and accountability for the system of quality management, the firm is responsible for the evaluation and conclusion.
- .A34** Individuals who have the appropriate influence and authority within the firm, as required by [paragraph .22](#), to be assigned responsibility for the matters in [paragraph .21](#) are typically partners of the firm. However, based on the legal structure of the firm, there may be circumstances in which an individual

<sup>5</sup> Paragraphs A23–A25 of Statement on Auditing Standards (SAS) No. 146, Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards (AU-C sec. 220). [Footnote renumbered by the issuance of SQMS No. 3, March 2023.]

may not be a partner of the firm, but the individual has the appropriate influence and authority within the firm to perform the assigned role because of formal arrangements made by the firm or the firm's network.

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

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

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

**.A37** Compliance with independence requirements is essential to the performance of engagements in a firm's accounting and auditing practice and is an expectation of stakeholders relying on the firm's reports. The individual or individuals assigned operational responsibility for compliance with independence requirements are ordinarily responsible for the oversight of all matters related to independence so that a robust and consistent approach is designed and implemented by the firm to deal with independence requirements.

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

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

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

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

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

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

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

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

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

- The results of the firm's monitoring and remediation process (see [paragraphs .43](#) and [.A169](#))
- Information from the network or service providers, including
  - information about network requirements or network services (see [paragraph .49](#))
  - other information from the network, including information about the results of monitoring activities undertaken by the network across the network firms (see [paragraphs .51–.52](#))

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

- Information regarding complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements or noncompliance with the firm's policies or procedures established in accordance with this section
- The results of external inspections
- Information from regulators about the entities for whom the firm performs engagements that is made available to the firm, such as information from a securities regulator about an entity for whom the firm performs engagements (for example, irregularities in the entity's financial statements or noncompliance with securities regulations)

- Changes in the system of quality management that affect other aspects of the system; for example, changes in the firm's resources
- Other external sources, such as regulatory actions and litigation against the firm or other firms in the jurisdiction that may highlight areas for the firm to consider

### ***Establish Quality Objectives (Ref: [par. .25](#))***

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

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

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

### ***Identify and Assess Quality Risks (Ref: [par. .26](#))***

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

**.A47** A risk arises from how, and the degree to which, a condition, event, circumstance, action, or inaction may adversely affect the achievement of a quality objective. Not all risks meet the definition of a quality risk. Professional judgment assists the firm in determining whether a risk is a quality risk, which is based on the firm's consideration of whether there is a reasonable possibility of the risk occurring and, individually or in combination with other risks, adversely affecting the achievement of one or more quality objectives.

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

Examples of the firm’s understanding of the conditions, events, circumstances, actions, or inactions that may adversely affect the achievement of the quality objectives	Examples of quality risks that may arise
<p>The strategic and operational decisions and actions, business processes, and business model of the firm: The firm’s overall financial goals are overly dependent on the extent of services provided by the firm not within the scope of this section.</p>	<p>In the context of governance and leadership, this may give rise to a number of quality risks such as the following:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> </ul>
<p>The characteristics and management style of leadership: The firm is a smaller firm with a few engagement partners with shared authority.</p>	<p>In the context of governance and leadership, this may give rise to a number of quality risks such as the following:</p> <ul style="list-style-type: none"> <li>• Leadership’s responsibilities and accountability for quality are not clearly defined and assigned.</li> <li>• The actions and behaviors of leadership that do not promote quality are not questioned.</li> </ul>
<p>The complexity and operating characteristics of the firm: The firm has recently completed a merger with another firm.</p>	<p>In the context of resources, this may give rise to a number of quality risks, including the following:</p> <ul style="list-style-type: none"> <li>• Technological resources used by the two merged firms may be incompatible.</li> <li>• 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.</li> </ul>

**.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.<sup>6</sup>
- .A53** The need for formally documented policies or procedures may be greater for firms that have many personnel or that are geographically dispersed, in order to achieve consistency across the firm.

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

- .A54** Examples of scalability to demonstrate how policies or procedures for identifying information about changes in the nature and circumstances of the firm and its engagements may vary from other firms include the following:
  - In a less complex firm, the firm may have informal policies or procedures to identify information about changes in the nature and circumstances of the firm or its engagements, particularly when the individual or individuals responsible for establishing quality objectives, identifying and assessing quality risks, and designing and implementing responses are able to identify such information in the normal course of their activities.
  - In a more complex firm, the firm may need to establish more formal policies or procedures to identify and consider information about changes in the nature and circumstances of the firm or its engagements.

This may include, for example, a periodic review of information relating to the nature and circumstances of the firm and its engagements, including ongoing tracking of trends and occurrences in the firm's internal and external environment.

- .A55** Additional quality objectives may need to be established, or quality risks and responses added to or modified, as part of the remedial actions undertaken by the firm to address an identified deficiency in accordance with [paragraph .43](#).
- .A56** The firm may have established quality objectives in addition to those specified by this section. The firm may also identify information that indicates that additional quality objectives previously established by the firm are no longer needed or need to be modified.

## **Governance and Leadership**

### **Commitment to Quality (Ref: [par. .29a](#))**

- .A57** The firm's culture is an important factor in influencing the behavior of personnel. Relevant ethical requirements ordinarily establish the principles of professional ethics and are further addressed in the "Relevant Ethical Requirements" section. Professional values and attitudes may include the following:
  - Professional manner; for example, timeliness, courteousness, respect, accountability, responsiveness, and dependability
  - A commitment to teamwork
  - Maintaining an open mind to new ideas or different perspectives in the professional environment
  - Pursuit of excellence
  - A commitment to continual improvement (for example, setting expectations beyond the minimum requirements and placing a focus on continual learning)
  - Social responsibility
- .A58** The firm's strategic decision-making process, including the establishment of a business strategy, may include matters such as the firm's decisions about financial and operational matters, the firm's financial goals, how financial resources are managed, growth of the firm's market share, industry specialization, or new service offerings. The firm's financial and operational priorities may directly or indirectly affect the firm's commitment to quality; for example, the firm may have incentives focused on financial and operational priorities that may discourage behaviors that demonstrate a commitment to quality.

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

### **Leadership (Ref: [par. .29b–c](#))**

- .A59** The responses designed and implemented by the firm to hold leadership responsible and accountable for quality include the performance evaluations required by [paragraph .57](#).
- .A60** Although leadership establishes the tone at the top through its actions and behaviors, clear, consistent, and frequent actions and communications at all levels within the firm collectively contribute to the firm’s culture and demonstrate a commitment to quality.

### **Organizational Structure (Ref: [par. .29d](#))**

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

### **Resources (Ref: [par. .29e](#))**

- .A62** The individual or individuals assigned ultimate responsibility and accountability or operational responsibility for the system of quality management are, in most cases, able to influence the nature and extent of resources that the firm obtains, develops, uses, and maintains and how those resources are allocated or assigned, including the timing of when they are used.
- .A63** Because resource needs may change over time, it may not be practicable to anticipate all resource needs. The firm’s resource planning may involve determining the resources currently required, forecasting the firm’s future resource needs, and establishing processes to deal with unanticipated resource needs when they arise.

### **Relevant Ethical Requirements (Ref: [par. .17](#) and [.30](#))**

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

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

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

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

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

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

- Relevant ethical requirements may include requirements for independence that apply to network firms or employees of network firms; for example, the AICPA code includes independence requirements that apply to network firms.
- Relevant ethical requirements may include a definition of engagement team or other similar concept, and the definition may include any individual who

performs assurance procedures on the engagement (for example, a service provider engaged to attend a physical inventory count at a remote location). Accordingly, any requirements of the relevant ethical requirements that apply to the engagement team as defined in the relevant ethical requirements, or other similar concept, may also be relevant to such individuals.

- The principle of confidentiality may apply to the firm's network, other network firms, or service providers when they have access to client information obtained by the firm.

**.A68** SAS No. 149<sup>7</sup> states that when the component auditor is not subject to the AICPA code, compliance with the ethics and independence requirements set forth in the International Ethics Standards Board for Accountants (IESBA) *International Code of Ethics for Professional Accountants* is sufficient to fulfill the component auditor's ethical responsibilities in the group audit.<sup>8</sup> The firm may use, for example, confirmations, letters of representation, or other affirmations from network firms, employees of network firms, or service providers regarding the fulfillment of ethical requirements that are relevant to the firm. [As amended, effective concurrently with a firm's implementation of SQMS Nos. 1 and 2 on December 15, 2025, by SQMS No. 3.]

## Acceptance and Continuance of Client Relationships and Specific Engagements

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

- .A69** The information obtained about the nature and circumstances of the engagement may include the following:
- The industry of the entity for which the engagement is being undertaken and relevant regulatory factors
  - The nature of the entity; for example, its operations, organizational structure, ownership and governance, its business model, and how it is financed
  - The nature of the underlying subject matter and the applicable criteria; for example, in the case of sustainability reporting,
    - the underlying subject matter may include social, environmental, or health and safety information.

- the applicable criteria may be performance measures established by a recognized body of specialists.

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

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

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

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

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

<sup>7</sup> 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.]

<sup>8</sup> The section, "Application of the AICPA Code" (ET sec. 0.200.020), of the AICPA Code of Professional Conduct (AICPA code) explains that an AICPA member who is the group engagement partner will not be considered in violation of the AICPA code if a component auditor practicing outside the United States departs from the AICPA code with respect to the audit or review of group financial statements, as long as the component auditor's conduct, at a minimum, is in accordance with the ethics and independence requirements set forth in the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants. [Footnote renumbered by the issuance of SQMS No. 3, March 2023.]

**.A73** Information that is obtained during the firm’s acceptance and continuance process also may often be relevant to the engagement team when planning and performing the engagement. Professional standards may specifically require the engagement team to obtain or consider such information. For example, SAS No. 146<sup>9</sup> requires the engagement partner to take into account information obtained in the acceptance and continuance process in planning and performing the audit engagement.

**.A74** Professional standards or applicable legal and regulatory requirements may include specific provisions that need to be addressed before accepting or continuing a client relationship or specific engagement and may also require the firm to make inquiries of an existing or predecessor firm when accepting an engagement. For example, when there has been a change of auditors, AU-C section 210, Terms of Engagement,<sup>10</sup> requires the auditor, prior to starting an initial audit, to request management to authorize the predecessor auditor to respond fully to the auditor’s inquiries regarding matters that will assist the auditor in determining whether to accept the engagement. The “Conflicts of Interest for Members in Public Practice” interpretation (ET sec. 1.110.010) of the AICPA code also addresses consideration of conflicts of interest in accepting or continuing a client relationship or specific engagement.

### **The Firm’s Ability to Perform Engagements** (Ref: [par. .31a\(ii\)](#))

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

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

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

- The circumstances of the engagement and the reporting deadline.

- The availability of individuals with the appropriate competence and capabilities, including sufficient time, to perform the engagement. This includes having
  - individuals to take overall responsibility for directing and supervising the engagement,
  - individuals with knowledge of the relevant industry or the underlying subject matter or criteria to be applied in the preparation of the subject matter information and experience with relevant regulatory or reporting requirements, and
  - individuals to perform audit procedures on the financial information of a component for purposes of an audit of group financial statements.
- The availability of specialists, if needed.
- If an engagement quality review is needed, whether there is an individual available who meets the eligibility requirements in [section 20](#).
- The need for technological resources; for example, IT applications that enable the engagement team to perform procedures on the entity’s data.
- The need for intellectual resources; for example, a methodology, industry or subject-matter-specific guides, or access to information sources.

### **The Firm’s Financial and Operational Priorities** (Ref: [par. .31b](#))

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

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

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

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

## Engagement Performance

### **Responsibilities of the Engagement Team and Direction, Supervision, and Review (Ref: [par. .32a–b](#))**

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

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

- Direction and supervision of the engagement team may include
  - tracking the progress of the engagement,
  - considering the following with respect to members of the engagement team:
- Whether they understand their instructions
- Whether the work is being carried out in accordance with the planned approach to the engagement
  - addressing matters arising during the engagement, considering their significance, and modifying the planned approach appropriately, and
  - identifying matters for consultation or consideration by more experienced engagement team members during the engagement.
- A review of work performed may include considering whether
  - the work has been performed in accordance with the firm’s policies or procedures, professional standards, and applicable legal and regulatory requirements;
  - significant matters have been raised for further consideration;
  - appropriate consultations have been undertaken, and the resulting conclusions have been documented and implemented;
  - there is a need to revise the nature, timing, and extent of planned work;
  - the work performed supports the conclusions reached and is appropriately documented;

- the evidence obtained for an assurance engagement is sufficient and appropriate to support the report; and
- the objectives of the engagement procedures have been achieved.

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

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

### **Professional Judgment and Professional Skepticism (Ref: [par. .32c](#))**

**.A82** Professional skepticism supports the quality of judgments made on an assurance engagement and, through these judgments, the overall effectiveness of the engagement team in performing the assurance engagement. Other professional standards may address the exercise of professional judgment or maintenance of professional skepticism at the engagement level. For example, SAS No. 146<sup>11</sup> provides examples of impediments to the maintenance of professional skepticism at the engagement level, unconscious auditor biases that may impede the maintenance of professional skepticism, and possible actions that the engagement team may take to mitigate such impediments.

### **Consultation (Ref: [par. .32d](#))**

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

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

- .A84 Difficult or contentious matters on which consultation is needed may either be specified by the firm, or the engagement team may identify matters that require consultation. The firm may also specify how conclusions should be agreed upon and implemented.
- .A85 SAS No. 146<sup>12</sup> includes requirements for the engagement partner related to consultation.

### **Differences of Opinion (Ref: [par. .32e](#))**

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

### **Engagement Documentation (Ref: [par. .32f](#))**

- .A87 Law, regulation, or professional standards may prescribe the time limits by which the assembly of final engagement files for specific types of engagements are to be completed. When no such time limits are prescribed, the time limit may be determined by the firm. For example, in the case of engagements conducted in accordance with the SSAEs or SSARs, an appropriate time limit within which to complete the assembly of the final engagement file is ordinarily not more than 60 days after the date of the engagement report.
- .A88 The retention and maintenance of engagement documentation may include managing the safe custody, integrity, accessibility, or retrievability of the underlying data and the related technology. The retention and maintenance of engagement documentation may involve the use of IT applications. The integrity of engagement documentation may be compromised if it is altered, supplemented, or deleted without authorization to do so, or if it is permanently lost or damaged.
- .A89 Law, regulation, or professional standards may prescribe the retention periods for engagement documentation. If the retention periods are not prescribed, the firm may consider the nature of the engagements performed by the firm and the firm's circumstances, including whether the engagement documentation is needed to provide a record of matters of continuing significance to future engagements. In the case of engagements conducted under generally accepted auditing standards or the SSAEs, the retention period is ordinarily no shorter than five years from the date of the engagement report or, if later, the date of the auditor's report on the group financial statements, when applicable.

### **Resources (Ref: [par. .33](#))**

- .A90 Resources for the purposes of the resources component include the following:
  - Human resources
  - Technological resources; for example, IT applications
  - Intellectual resources; for example, written policies or procedures, a methodology, or guides

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

- .A91 Resources may be internal to the firm or may be obtained externally from the firm's network, another network firm, or service provider. Resources may be used in performing activities within the firm's system of quality management or in performing engagements as part of operating the system of quality management. In circumstances in which a resource is obtained from the firm's network or another network firm, [paragraphs .49–.53](#) form part of the responses designed and implemented by the firm in achieving the objectives in this component. Determining the difference between a resource or an information source depends on the particular circumstances, for example
  - a component auditor is a resource used in performing a group audit.
  - an auditor's external expert is a resource used in performing an audit.
  - a referred-to auditor is an information source because a referred-to auditor's report provides information to be used as audit evidence.
  - a predecessor auditor, accountant, or practitioner is an information source because information obtained from them about opening balances or consistency of accounting principles provides information to be used as audit evidence.
  - a service auditor that issues a report on a service organization's controls is an information source and not a resource, unless the service organization is requested to perform further procedures for purposes of the particular engagement.

[As amended, effective concurrently with a firm's implementation of SQMS Nos. 1 and 2 on December 15, 2025, by SQMS No. 3.]

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

## Human Resources

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

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

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

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

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

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

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

**.A96** Positive actions or behaviors demonstrated by personnel may be recognized through various means, such as through compensation, promotion, or other

incentives. In some circumstances, simple or informal incentives that are not based on monetary rewards may be appropriate.

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

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

*Individuals obtained from external sources (Ref: [par. .33c](#)).*

**.A98** Professional standards may include responsibilities for the engagement partner regarding the appropriateness of resources. For example, SAS No. 146<sup>13</sup> 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<sup>14</sup> addresses the responsibility of the engagement partner to determine that members of the engagement team, and any auditor's external

<sup>13</sup> Paragraph 25 of SAS No. 146. [Footnote renumbered by the issuance of SQMS No. 3, March 2023.]

<sup>14</sup> Paragraph 26 of SAS No. 146. [Footnote renumbered by the issuance of SQMS No. 3, March 2023.]

specialists and internal auditors who provide direct assistance (who are not part of the engagement team), collectively have the appropriate competence and capabilities, including sufficient time, to perform the engagement. The responses designed and implemented by the firm to address the competence and capabilities of engagement team members assigned to the engagement may include policies or procedures that address the following:

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

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

### **Technological Resources (Ref: par. .33f)**

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

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

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

- Technological resources that are directly used in designing, implementing, or operating the firm's system of quality management

- Technological resources that are used directly by engagement teams in performing engagements
- Technological resources that are essential to enabling the effective operation of the preceding, such as, in relation to an IT application, the IT infrastructure and IT processes supporting the IT application

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

- In a less complex firm, the technological resources may comprise a commercial IT application used by engagement teams that has been purchased from a service provider. The IT processes that support the operation of the IT application may also be relevant, although they may be simple (for example, processes for authorizing access to the IT application and processing updates to the IT application).
- In a more complex firm, the technological resources may be more complex and may comprise the following:
  - Multiple IT applications, including custom-developed applications or applications developed by the firm's network, such as
    - IT applications used by engagement teams (for example, engagement software and automated audit tools) and
    - IT applications developed and used by the firm to manage aspects of the system of quality management (for example, IT applications to monitor independence or assign personnel to engagements)
  - The IT processes that support the operation of these IT applications, including the individuals responsible for managing the IT infrastructure and processes and the firm's processes for managing program changes to IT applications

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

- The data inputs are complete and appropriate.
- Confidentiality of the data is preserved.
- The IT application operates as designed and achieves the purpose for which it is intended.
- The outputs of the IT application achieve the purpose for which they will be used.
- The general IT controls necessary to support the IT application's continued operation as designed are appropriate.

- The need for specialized skills to use the IT application effectively, including the training of individuals who will use the IT application.
- The need to develop procedures that set out how the IT application operates.

**.A106** The firm may specifically prohibit the use of IT applications or features of IT applications until such time that it has been determined that they operate appropriately and have been approved for use by the firm. Alternatively, the firm may establish policies or procedures to address circumstances in which the engagement team uses an IT application that is not approved by the firm. Such policies or procedures may require the engagement team to determine that the IT application is appropriate for use prior to using it on the engagement, through considering the matters in [paragraph .A102](#). SAS No. 146<sup>15</sup> addresses the engagement partner’s responsibilities for engagement resources.

### **Intellectual Resources (Ref: [par. .33g](#))**

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

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

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

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

- Requiring the use of certain IT applications or intellectual resources in performing engagements, or relating to other aspects of the engagement, such as in archiving the engagement file

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

### **Service Providers (Ref: [par. .17](#) and [.33h](#))**

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

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

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

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

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

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

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

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

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

**.A115** The evaluation of a service provider from a firm not within the firm's network that is used as a component auditor may be different than that of a service provider engaged directly by the firm. For example,

in understanding the competency of the component auditor to perform the engagement, it may not be necessary or practicable for the firm to obtain an understanding of how the component auditor updates its methodology to reflect changes in professional standards. Rather, the firm could perform procedures such as review of results of regulatory inspections, transparency or audit quality information published by the component auditor's firm, or evaluation of the reputation of the component auditor.

### **Information and Communication (Ref: [par. .34](#))**

**.A116** Obtaining, generating, or communicating information is generally an ongoing process that involves all personnel and encompasses the dissemination of information within the firm and externally. Information and communication are pervasive to all components of the system of quality management.

### **The Firm's Information System (Ref: [par. .34a](#))**

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

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

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

### **Communication Within the Firm (Ref: [par. .34b-c](#))**

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

- The firm communicates the responsibility for implementing the firm's responses to personnel and engagement teams.

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

[As amended, effective concurrently with a firm's implementation of SQMS Nos. 1 and 2 on December 15, 2025, by SQMS No. 3.]

### **Communication With External Parties**

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

- .A121** In addition to the firm communicating information to or within the firm's network or to a service provider, the firm may need to obtain information from the network, a network firm, or a service provider that supports the firm in the design, implementation, and operation of

its system of quality management. For example, the firm may obtain information from the network or other network firms about clients of other network firms when there are independence requirements that affect the firm.

*Communication With Others External to the Firm (Ref: [par. .34d\(ii\)](#))*

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

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

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

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

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

### **Specified Responses (Ref: [par. .35](#))**

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

### **Relevant Ethical Requirements (Ref: [par. .35a–b](#))**

- .A125** Relevant ethical requirements may contain provisions regarding the identification and evaluation of threats and how they should be addressed. For example, the AICPA code provides a conceptual framework for this purpose and, in applying the conceptual framework, requires that the firm use the reasonable and informed third-party test.
- .A126** Relevant ethical requirements may specify how the firm is required to respond to a breach. For example, the “Breach of an Independence” interpretation (ET sec. 1.298.010) of the “Independence Rule” (ET sec. 1.200.001) contains guidance addressing a breach of an independence interpretation of the AICPA code, which also contains guidance addressing a breach of any other provision of the AICPA code.
- .A127** Matters the firm may address relating to breaches of the relevant ethical requirements include the following:
- The communication of breaches of the relevant ethical requirements to appropriate personnel
  - The evaluation of the significance of a breach and its effect on compliance with relevant ethical requirements
  - The actions to be taken to satisfactorily address the consequences of a breach, including that such actions be taken as soon as practicable
  - Determining whether to report a breach to external parties, such as those charged with governance of the entity to which the breach relates or an external oversight authority
  - Determining the appropriate actions to be taken in relation to the individual or individuals responsible for the breach

### **Complaints and Allegations (Ref: [par. .35c](#))**

- .A128** Establishing policies or procedures for dealing with complaints and allegations may assist the firm in preventing engagement reports from being issued that are inappropriate. It also may assist the firm in
- identifying and dealing with individuals, including leadership, who do not act or behave in a manner that demonstrates a commitment to quality and supports the firm’s commitment to quality, or
  - identifying deficiencies in the system of quality management.
- .A129** Complaints and allegations may be made by personnel or others external to the firm (for example, clients, component auditors, or individuals within the firm’s network).

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

- .A130** Information that becomes known subsequent to accepting or continuing a client relationship or specific engagement may
- have existed at the time of the firm’s decision to accept or continue the client relationship or specific engagement, and the firm was not aware of such information, or
  - relate to new information that has arisen since the decision to accept or continue the client relationship or specific engagement.
- .A131** Examples of matters addressed in the firm’s policies or procedures for circumstances in which information becomes known subsequent to accepting or continuing a client relationship or specific engagement that may have affected the firm’s decision to accept or continue a client relationship or specific engagement include the following:
- Undertaking consultation within the firm or with legal counsel
  - Considering whether there is a professional, legal, or regulatory requirement for the firm to continue the engagement
  - Discussing with the appropriate level of the client’s management and with those charged with governance or the engaging party the action that the firm might take based on the relevant facts and circumstances
  - When it is determined that withdrawal is an appropriate action:
    - Informing the client’s management and those charged with governance or the engaging party of this decision and the reasons for the withdrawal
    - Considering whether there is a professional, legal, or regulatory requirement for the firm to report the withdrawal from the engagement, or from both the engagement and the client relationship, together with the reasons for the withdrawal, to regulatory authorities
- .A132** In some circumstances, law or regulation may impose an obligation on the firm to accept or continue a client engagement.

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

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

#### **Communication With External Parties (Ref: [par. .35e](#))**

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

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

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

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

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

- The nature and circumstances of the firm, such as the organizational structure, business model, strategy, and operating environment
- The firm's governance and leadership, such as
  - its culture;
  - how it demonstrates a commitment to quality; and
  - how roles, responsibilities, and authority with respect to the system of quality management are assigned
- How the firm fulfills its responsibilities in accordance with relevant ethical requirements, including those related to independence
- Factors that contribute to quality engagements; for example, such information may be presented in the form of engagement quality indicators with narrative to explain the indicators
- The results of the firm's monitoring activities and external inspections and how the firm has remediated identified deficiencies or is otherwise responding to them
- The evaluation undertaken in accordance with [paragraphs .54–.55](#) of whether the system of quality management provides the firm with reasonable assurance that the objectives of the system are being achieved and the conclusion thereon, including the basis for the judgments made in evaluating and concluding
- How the firm has responded to emerging developments and changes in the circumstances of the firm or its engagements, including how the system of quality management has been adapted to respond to such changes
- The relationship between the firm and the network, the overall structure of the network, a description of network requirements and network services, the responsibilities of the firm and the network (including that the firm is ultimately responsible for the system of quality management), and information about the overall scope and results of network monitoring activities across the network firms

*Determining When It Is Appropriate to Communicate With External Parties (Ref: [par. .35e\(i\)](#))*

- .A138** The firm's determination of when it is appropriate to communicate with external parties about the firm's system of quality management is a matter of professional judgment and may be influenced by matters such as the following:
- The types of engagements performed by the firm
  - The types of entities for which such engagements are undertaken; for example, entities that may have public interest or public accountability characteristics, such as
    - entities that hold a significant amount of assets in a fiduciary capacity for a large number of stakeholders, including financial institutions, such as certain banks, insurance companies, and pension funds;
    - entities with a high public profile or whose management or owners have a high public profile; and
    - entities with a large number and wide range of stakeholders.
  - The nature and circumstances of the firm
  - The nature of the firm's operating environment, such as customary business practice in the firm's jurisdiction and the characteristics of the financial markets in which the firm operates
  - The extent to which the firm has already communicated with external parties in accordance with law or regulation (that is, whether further communication is needed and, if so, the matters to be communicated)
  - The expectations of stakeholders in the firm's jurisdiction, including the understanding and interest that external parties have expressed about the engagements undertaken by the firm, and the firm's processes in performing the engagements
  - Jurisdictional trends
  - The information that is already available to external parties
  - How external parties may use the information, and their general understanding of matters related to firms' systems of quality management and engagements performed by the firm in its accounting and auditing practice

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

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

- .A139** AU-C section 260, *The Auditor's Communication With Those Charged With Governance*, deals with the auditor's responsibility to communicate with those charged with governance in an audit of financial statements and addresses the auditor's determination of the appropriate person or persons within the entity's governance structure with whom to communicate<sup>16</sup> and the communication process.<sup>17</sup> In some circumstances, it may be appropriate to include information about the firm's system of quality management in those communications with those charged with governance (or when performing other engagements, for example, review or examination engagements). How the communication with those charged with governance is undertaken (that is, by the firm or the engagement team) may depend on the firm's policies or procedures and the circumstances of the engagement.

### ***Considerations for Engagements for Governmental Organizations***

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

#### *Nature, Timing, and Extent and Appropriate Form of Communication With External Parties (Ref: [par. .35e\(ii\)](#))*

- .A141** The firm may consider the following attributes in preparing information that is communicated to external parties:
- The information is specific to the circumstances of the firm. Relating the matters in the firm's communication directly to the specific circumstances of the firm may help to minimize the potential that such information becomes overly standardized and less useful over time.

<sup>16</sup> 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.]

<sup>17</sup> Paragraphs .15–.20 of AU-C section 260. [Footnote renumbered by the issuance of SQMS No. 3, March 2023.]

- The information is presented in a clear and understandable manner, and the manner of presentation is neither misleading nor would inappropriately influence the users of the communication (for example, the information is presented in a manner that is appropriately balanced toward positive and negative aspects of the matter being communicated).
- The information is accurate and complete in all material respects and does not contain information that is misleading.
- The information takes into consideration the information needs of the users for whom it is intended. In considering the information needs of the users, the firm may consider matters such as the level of detail that users would find meaningful and whether users have access to relevant information through other sources (for example, the firm's website).

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

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

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

### **Engagements Subject to an Engagement Quality Review**

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

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

- are *public interest entities* as defined in a particular jurisdiction,

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

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

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

**.A145** Criteria established by the firm to determine whether an engagement quality review is an appropriate response for one or more quality risks may relate to the types of engagements performed by the firm and reports to be issued, and the types of entities for which engagements are undertaken. Examples of conditions, events, circumstances, actions, or inactions giving rise to such quality risks include the following:

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

- Engagements that involve a high level of complexity or judgment, such as the following:
  - Audits of financial statements for entities operating in an industry that typically has accounting estimates with a high degree of estimation uncertainty (for example, certain large financial institutions or mining entities) or for entities for which uncertainties exist related to events or conditions that may cast significant doubt on their ability to continue as a going concern
  - Assurance engagements that require specialized skills and knowledge in measuring or evaluating the underlying subject matter against the applicable criteria (for example, a greenhouse gas statement in which there are significant uncertainties associated with the quantities reported therein)

- Engagements on which issues have been encountered, such as audit engagements with recurring internal or external inspection findings, unremediated significant deficiencies in internal control, or a material restatement of comparative information in the financial statements
- Engagements for which unusual circumstances have been identified during the firm's acceptance and continuance process (for example, a new client that had a disagreement with its previous auditor or assurance practitioner)
- Engagements that involve reporting on financial or nonfinancial information that is expected to be included in a regulatory filing and that may involve a higher degree of judgment, such as pro forma financial information to be included in a prospectus

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

- Entities in emerging industries or for which the firm has no previous experience
- Entities for which concerns were expressed in communications from regulators
- Entities that may have public interest or public accountability characteristics, such as the following:
  - Entities that hold a significant amount of assets in a fiduciary capacity for a large number of stakeholders, including financial institutions such as certain banks, insurance companies, and pension funds for which an engagement quality review is not otherwise required by law or regulation
  - Entities with a high public profile or whose management or owners have a high public profile
  - Entities with a large number and wide range of stakeholders
  - Governmental organizations
    - Due to their size and complexity, the range of their stakeholders or the nature of the services they provide
    - Due to the complexity, and importance to users, of additional reporting requirements established by law or regulation (for example, a separate report on instances of noncompliance with law or regulation to the legislature or other governing body or communicating such instances in the auditor's report on the financial statements)

**.A146** The firm's responses to address quality risks may include other forms of engagement reviews that are not an engagement quality review. For example, for audits of financial statements, the firm's responses

may include reviews of the engagement team's procedures relating to significant risks, or reviews of certain significant judgments, by personnel who have specialized technical expertise. In some cases, these other types of engagement reviews may be undertaken in addition to an engagement quality review.

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

### **Monitoring and Remediation Process (Ref: [par. .36–.48](#))**

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

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

### **Designing and Performing Monitoring Activities (Ref: [par. .38–.39](#))**

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

**.A150** Monitoring activities may include the inspection of in-process engagements. Inspections of engagements are designed to monitor whether an aspect of the system of quality management is designed, implemented, and operating in the manner intended. In some circumstances, the system of quality management may include responses that are designed to review engagements while they are in the process of being performed that appear similar in nature to an inspection of in-process engagements (for example, reviews that are designed to detect

failures or shortcomings in the system of quality management so that they can prevent a quality risk from occurring). The purpose of the activity drives its design and implementation and where it fits within the system of quality management (that is, whether it is an inspection of an in-process engagement that is a monitoring activity or a review of an engagement that is a response to address a quality risk).

- .A151** The nature, timing, and extent of the monitoring activities may also be affected by other matters, including
- the size, structure, and organization of the firm,
  - the involvement of the firm's network in monitoring activities, and
  - the resources that the firm intends to use to enable monitoring activities, such as the use of IT applications.

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

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

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

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

- .A155** An example of scalability to demonstrate how the monitoring activities for the monitoring and remediation process may differ in firms of different complexity is as follows:
- In a less complex firm, the monitoring activities may be simple because information about the monitoring and remediation process may be readily available in the form of leadership's knowledge, based on their frequent interaction with the system of quality management, of the nature, timing, and extent of the monitoring activities undertaken, the results of the monitoring activities, and the firm's actions to address the results.

- In a more complex firm, the monitoring activities for the monitoring and remediation process may be specifically designed to determine that the monitoring and remediation process is providing relevant, reliable, and timely information about the system of quality management, and responding appropriately to identified deficiencies.

*Changes in the System of Quality Management (Ref: [par. .38d](#))*

- .A156** Changes in the system of quality management may include
- changes to address an identified deficiency in the system of quality management, and
  - changes to the quality objectives, quality risks, or responses as a result of changes in the nature and circumstances of the firm and its engagements.

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

*Previous Monitoring Activities (Ref: [par. .38e](#) and [.44b](#))*

- .A157** The results of the firm's previous monitoring activities may indicate areas of the system where a deficiency may arise, particularly areas where there is a history of identified deficiencies.
- .A158** Previous monitoring activities undertaken by the firm may no longer provide the firm with information to support the evaluation of the system, including on areas of the system of quality management that have not changed, particularly when time has elapsed since the monitoring activities were undertaken.

**Other Relevant Information (Ref: [par. .38f](#))**

- .A159** In addition to the sources of information indicated in [paragraph .38f](#), other relevant information may include the following:
- Information communicated by the firm's network in accordance with paragraphs .51c and .52b about the firm's system of quality management, including the network requirements or network services that the firm has included in its system of quality management
  - Information communicated by a service provider about the resources the firm uses in its system of quality management
  - Information from regulators about the entities for whom the firm performs engagements that is made available to the firm, such as information from a securities regulator about an entity for whom the firm

performs engagements (for example, irregularities in the entity's financial statements)

- .A160** The results of external inspections or other relevant information, both internal and external, may indicate that previous monitoring activities undertaken by the firm failed to identify a deficiency in the system of quality management. This information may affect the firm's consideration of the nature, timing, and extent of the monitoring activities.
- .A161** External inspections are not a substitute for the firm's internal monitoring activities. Nevertheless, the results of external inspections inform the nature, timing, and extent of the monitoring activities.

### **Engagement Inspections (Ref: [par. .39](#))**

- .A162** Examples of matters in paragraph .38 that may be considered by the firm in selecting completed engagements for inspection include the following:
- In relation to the conditions, events, circumstances, actions, or inactions giving rise to the quality risks:
    - The types of engagements performed by the firm, and the extent of the firm's experience in performing the type of engagement
    - The types of entities for which engagements are undertaken, such as the following:
      - Entities operating in emerging industries
      - Entities operating in industries associated with a high level of complexity or judgment
      - Entities operating in an industry that is new to the firm
    - The tenure and experience of engagement partners
  - The results of previous inspections of completed engagements, including for each engagement partner
  - In relation to other relevant information:
    - Complaints or allegations about an engagement partner
    - The results of external inspections, including for each engagement partner
    - The results of the firm's evaluation of each engagement partner's commitment to quality
- .A163** The firm may undertake multiple monitoring activities, other than inspection of completed engagements, that focus on determining whether engagements have complied with policies or procedures. These monitoring activities may be undertaken on certain engagements or engagement partners. The nature and extent of these monitoring activities, and the results, may be used by the firm in determining the following:

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

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

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

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

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

- set forth the standard period of the inspection cycle, such as the inspection of a completed engagement for each engagement partner performing audits of financial statements once every, for example, three years, and for all other engagement partners, once every, for example, five years.
- set out the criteria for selecting completed engagements, including that for an engagement partner performing audits of financial statements, the engagements selected include an audit engagement.

- address the selection of engagement partners in a manner that is unpredictable.
- address when it is necessary or appropriate to select engagement partners more, or less, frequently than the standard period set out in the policy. Examples follow:

- The firm may select engagement partners more frequently than the standard period set out in the firm’s policy when the following apply:
  - Multiple deficiencies have been identified by the firm that have been evaluated as severe, and the firm determines that a more frequent cyclical inspection is needed across all engagement partners.
  - The engagement partner performs engagements for entities operating in a certain industry in which there are high levels of complexity or judgment.
  - An engagement performed by the engagement partner has been subject to other monitoring activities, and the results of the other monitoring activities were unsatisfactory.
  - The engagement partner has performed an engagement for an entity operating in an industry in which the engagement partner has limited experience.
  - The engagement partner has limited experience in performing that level of service engagements.
  - The engagement partner is a newly appointed engagement partner or has recently joined the firm from another firm or another jurisdiction.
- The firm may defer the selection of the engagement partner (for example, deferring for a year beyond the standard period set out in the firm’s policy) when
  - engagements performed by the engagement partner have been subject to other monitoring activities during the standard period set out in the firm’s policy, and
  - the results of the other monitoring activities provide sufficient information about the engagement partner; that is, performing the inspection of completed engagements would unlikely provide the firm with further information about the engagement partner.

**.A166** The matters considered in an inspection of an engagement depend on how the inspection will be used to monitor the system of quality management.

Ordinarily, the inspection of an engagement includes determining that responses that are implemented at the engagement level (for example, the firm’s policies and procedures in respect of engagement performance) have been implemented as designed and are operating effectively.

#### *The Relationship of Peer Review to Monitoring*

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

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

#### *Individuals Performing the Monitoring Activities (Ref: [par. .40](#))*

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

**.A170** The provisions of relevant ethical requirements are relevant in designing the policies or procedures addressing the objectivity of the individuals performing the monitoring activities. A self-review threat may arise when an individual who performs an inspection of an

<sup>18</sup> Paragraph .11 of PR-C section 100, *Concepts Common to All Peer Reviews*. [Footnote renumbered by the issuance of SQMS No. 3, March 2023.]

engagement was an engagement team member or the engagement quality reviewer of that engagement. A self-review threat may also arise when an individual involved in operating the response to a quality risk is performing the monitoring of that response. For example, a self-review threat may arise if an individual responsible for accepting client engagements is also responsible for monitoring compliance with the firm's client acceptance policies and procedures.

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

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

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

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

- Establishing strong client acceptance and engagement continuance policies that address the risk of the firm accepting or continuing engagements it doesn't have the competency and resources to perform
- Establishing consultation policies that require engagement teams to consult when they encounter technical accounting and auditing difficulties
- Taking corrective action in response to the results identified by the firm's internal monitoring, engagement quality reviews, peer review results or

other external inspections; for example, inspections by the U.S. Department of Labor

- Requiring the use of an external service provider to perform engagement quality reviews or monitoring activities when
  - deficiencies identified by the firm's monitoring activities, peer reviewers, or other external inspections indicate that self-inspection is not effective, or
  - changes in conditions and the environment within the firm (such as obtaining clients in an industry not previously serviced or significantly changing the size of the firm) occur.

### **Evaluating Findings and Identifying Deficiencies** (Ref: [par. .17](#) and [.41–.42](#))

**.A174** The firm accumulates findings from the performance of monitoring activities, external inspections, and other relevant sources. Information accumulated by the firm from the monitoring activities, external inspections, and other relevant sources may reveal other observations about the firm's system of quality management, such as

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

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

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

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

*Quality risks and responses*

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

*Nature of the findings and their pervasiveness*

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

*Extent of Monitoring Activity and Extent of Findings*

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

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

- In investigating the root causes of an identified deficiency, the firm may identify a circumstance that has similarities to other circumstances in which there were findings that were not considered deficiencies.

As a result, the firm adjusts its evaluation of the other findings and classifies them as deficiencies.

- In evaluating the severity and pervasiveness of an identified deficiency, the firm may identify a trend or systemic issue that correlates with other findings that are not considered deficiencies. As a result, the firm adjusts its evaluation of the other findings and also classifies them as deficiencies.

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

**Evaluating Identified Deficiencies (Ref: [par. .42](#))**

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

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

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

**Root Cause of the Identified Deficiencies (Ref: [par. .42a](#))**

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

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

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

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

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

**.A183** In investigating the root causes of identified deficiencies, the firm may consider why deficiencies did not arise in other circumstances that are of a similar nature to the matter to which the identified deficiency relates. Such information may also be useful in determining how to remediate an identified deficiency.

For example, the firm may determine that a deficiency exists because similar findings have occurred across multiple engagements. However, the findings have not occurred in several other engagements within the same population being tested. By contrasting the engagements, the firm concludes that the root cause of the identified deficiency is a lack of appropriate involvement by the engagement partners at key stages of the engagements.

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

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

### ***Responding to Identified Deficiencies (Ref: [par. .43](#))***

- .A186** The nature, timing, and extent of remedial actions may depend on a variety of other factors, including the following:
- The root causes
  - The severity and pervasiveness of the identified deficiency and, therefore, the urgency with which it needs to be addressed
  - The effectiveness of the remedial actions in addressing the root causes, such as whether the firm needs to implement more than one remedial action in order to effectively address the root causes, or needs to implement remedial actions as interim measures until the firm is able to implement more effective remedial actions
- .A187** In some circumstances, the remedial action may include establishing additional quality objectives, or quality risks or responses may be added or modified, because it is determined that they are not appropriate.

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

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

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

#### *Findings About a Particular Engagement (Ref: [par. .46](#))*

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

- Consulting with appropriate individuals regarding the appropriate action
- Discussing the matter with management of the entity or those charged with governance
- Performing the omitted procedures

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

#### ***Ongoing Communication Related to the Monitoring and Remediation (Ref: [par. .47](#))***

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

- As a basis for further communications to personnel about the importance of quality
- To hold individuals accountable for their roles assigned to them

- To identify key concerns about the system of quality management in a timely manner

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

#### **Network Requirements or Network Services (Ref: [par. .49](#))**

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

**.A192** Examples of network requirements include the following:

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

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

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

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

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

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

**Network Requirements or Network Services in the Firm’s System of Quality Management (Ref: [par. .50](#))**

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

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

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

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

Network requirement or network service	How the firm adapts or supplements the network requirement or network service
<p>The network requires the firm to include certain quality risks in the system of quality management so that all firms in the network address the quality risks. The network does not provide an assessment of the quality risks.</p>	<p>As part of identifying and assessing quality risks, the firm assesses the quality risks that are required by the network.</p> <p>The firm also designs and implements responses to address the assessed quality risks that are required by the network.</p>
<p>The network requires that the firm design and implement certain responses.</p>	<p>As part of designing and implementing responses, the firm determines</p> <ul style="list-style-type: none"> <li>• which assessed quality risks the responses address.</li> <li>• 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).</li> </ul>

Network requirement or network service	How the firm adapts or supplements the network requirement or network service
<p>The firm uses individuals from other network firms as component auditors. Network requirements are in place that drive a high degree of commonality across the network firms' systems of quality management. The network requirements include specific criteria that apply to individuals assigned to work on a component for a group audit.</p>	<p>The firm establishes policies or procedures that require the engagement team to confirm with the component auditor (that is, the other network firm) that the individuals assigned to the component meet the specific criteria set out in the network requirements.</p>

**.A199** In some circumstances, in adapting or supplementing the network requirements or network services, the firm may identify possible improvements to the network requirements or network services and may communicate these improvements to the network.

**Monitoring Activities Undertaken by the Network on the Firm's System of Quality Management (Ref: [par. .51c](#))**

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

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

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

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

- be used by the firm
  - in identifying and assessing quality risks, and
  - as part of other relevant information considered by the firm in determining whether deficiencies exist in the network requirements or network services used by the firm in its system of quality management.

- be communicated to group engagement partners, in the context of considering the competence and capabilities of component auditors from a network firm who are subject to common network requirements (for example, common quality objectives, quality risks, and responses).

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

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

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

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

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

- .A205** In designing and implementing the remedial actions to address the effect of the identified deficiency in the network requirements or network services, the firm may
- understand the planned remedial actions by the network, including whether the firm has any responsibilities for implementing the remedial actions, and
  - consider whether supplementary remedial actions need to be taken by the firm to address the identified deficiency and the related root causes, such as when
    - the network has not taken appropriate remedial actions, or
    - the network’s remedial actions will take time to effectively address the identified deficiency.

**Evaluating the System of Quality Management**  
(Ref: [par. .54](#))

- .A206** The individual or individuals assigned ultimate responsibility and accountability for the system of quality management may be assisted by other individuals in performing the evaluation. Nevertheless, the individual or individuals assigned ultimate responsibility and accountability for the system of quality management remain responsible and accountable for the evaluation.
- .A207** The point in time at which the evaluation is undertaken may depend on the circumstances of the firm and may coincide with the fiscal year-end of the firm or the completion of an annual monitoring cycle.
- .A208** The information that provides the basis for the evaluation of the system of quality management includes the information communicated to the individuals assigned ultimate responsibility and accountability for the system of quality management in accordance with [paragraph .47](#).
- .A209** An example of scalability to demonstrate how the information that provides the basis for the evaluation of the system of quality management may be obtained in firms of different complexity is as follows:
- In a less complex firm, the individual or individuals assigned ultimate responsibility and accountability for the system of quality management may be directly involved in the monitoring and remediation and, therefore, will be aware of the information that supports the evaluation of the system of quality management.

- In a more complex firm, the individual or individuals assigned ultimate responsibility and accountability for the system of quality management may need to establish processes to collate, summarize, and communicate the information needed to evaluate the system of quality management.

**Concluding on the System of Quality Management**  
(Ref: [par. .55](#))

- .A210** In the context of this section, it is intended that the operation of the system as a whole provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved. In concluding on the system of quality management, the individual or individuals assigned ultimate responsibility and accountability for the system of quality management may, in using the results of the monitoring and remediation process, consider the following:
- The severity and pervasiveness of identified deficiencies and the effect on the achievement of the objectives of the system of quality management
  - Whether remedial actions have been designed and implemented by the firm and whether the remedial actions taken up to the time of the evaluation are effective
  - Whether the effect of identified deficiencies on the system of quality management have been appropriately corrected, such as whether further actions have been taken in accordance with [paragraph .46](#)
- .A211** There may be circumstances in which identified deficiencies that are severe (including identified deficiencies that are severe and pervasive) have been appropriately remediated and the effect of them corrected at the point in time of the evaluation. In such cases, the individual or individuals assigned ultimate responsibility and accountability for the system of quality management may conclude that the system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved.
- .A212** An identified deficiency may have a pervasive effect on the design, implementation, and operation of the system of quality management when, for example, the deficiency
- affects several components or aspects of the system of quality management.

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

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

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

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

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

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

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

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

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

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

### ***Taking Prompt and Appropriate Action and Further Communication (Ref: [par. .56](#))***

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

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

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

- .A220** Examples of circumstances in which it may be appropriate for the firm to communicate to external parties about the evaluation of the system of quality management include the following:
- When the firm belongs to a network
  - When other network firms use the work performed by the firm, for example, in the case of a group audit
  - When a report issued by the firm is determined by the firm to be inappropriate as a result of the failure of the system of quality management, and management or those charged with governance of the entity need to be informed
  - When law or regulation requires the firm to communicate to an oversight authority or a regulatory body

### **Performance Evaluations (Ref: [par. .57](#))**

- .A221** Periodic performance evaluations promote accountability. In considering the performance of an individual, the firm may take the following into account:
- The results of the firm’s monitoring activities for aspects of the system of quality management that relate to the responsibility of the individual. In some circumstances, the firm may set targets for the individual and measure the results of the firm’s monitoring activities against those targets.
  - The actions taken by the individual in response to identified deficiencies that relate to the responsibility of that individual, including the timeliness and effectiveness of such actions.
- .A222** An example of scalability to demonstrate how firms of different complexity may undertake the performance evaluations is as follows:
- In a less complex firm, the firm may engage a service provider to perform the evaluation, or the results of the firm’s monitoring activities may provide an indication of the performance of the individual.
  - In a more complex firm, the performance evaluations may be undertaken by an independent nonexecutive member of the firm’s governing body or a special committee overseen by the firm’s governing body.
- .A223** A positive performance evaluation may be rewarded through compensation, promotion, and other incentives that focus on the individual’s commitment to quality and reinforce accountability. On the other hand, the firm may take corrective actions to address a negative performance evaluation that may affect the firm’s achievement of its quality objectives.

### **Documentation (Ref: [par. .58–.60](#))**

- .A224** Documentation provides evidence that the firm complies with this section, as well as law, regulation, or relevant ethical requirements. It may also be useful for training personnel and engagement teams, ensuring the retention of organizational knowledge, and providing a history of the basis for decisions made by the firm about its system of quality management. It is neither necessary nor practicable for the firm to document every matter considered, or judgment made, about its system of quality management. Furthermore, compliance with this section may be evidenced by the firm through its information and communication component, documents or other written materials, or IT applications that are integral to the components of the system of quality management.
- .A225** Documentation may be formal (for example, written manuals, checklists, and forms), informal (for example, email communication or postings on websites), or held in IT applications or other digital forms (for example, in databases). Factors that may affect the firm’s judgments about the form, content, and extent of documentation, including how often documentation is updated, may include the following:
- The complexity of the firm and the number of offices
  - The nature and complexity of the firm’s practice and organization
  - The nature of engagements the firm performs and the nature of the entities for whom engagements are performed
  - The nature and complexity of the matter being documented, such as whether it relates to an aspect of the system of quality management that has changed or an area of greater quality risk, and the complexity of the judgments relating to the matter
  - The frequency and extent of changes in the system of quality management

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

**.A226** In some instances, an external oversight authority may establish documentation requirements, either formally or informally, for example, as a result of the outcome of external inspection findings. Relevant ethical requirements may also include specific requirements addressing documentation; for example, the AICPA code requires documentation of particular matters, including certain situations related to conflicts of interest, noncompliance with laws and regulations, and independence.

**.A227** The firm is not required to document the consideration of every condition, event, circumstance, action, or inaction for each quality objective or each risk that may give rise to a quality risk. However, in documenting the quality risks and how the firm's responses address the

quality risks, the firm may document the reasons for the assessment given to the quality risks (that is, the considered occurrence and effect on the achievement of one or more quality objectives) to support the consistent implementation and operation of the responses.

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

# QM Section 20

## Engagement Quality Reviews

Source: SQMS No. 2; SQMS No. 3.

Effective for audits or reviews of financial statements for periods beginning on or after December 15, 2025, and other engagements in the firm's accounting and auditing practice beginning on or after December 15, 2025.

### Introduction

#### Scope of This Section

- .01 This section addresses the following:
- The appointment and eligibility of the engagement quality reviewer
  - The engagement quality reviewer's responsibilities relating to the performance and documentation of an engagement quality review
- .02 This section applies to all engagements for which an engagement quality review is required to be performed in accordance with [Statement on Quality Management Standards \(SQMS\) No. 1, A Firm's System of Quality Management](#) (QM sec. 10), including when the firm has determined that an engagement quality review is an appropriate response to assessed quality risks.<sup>1</sup> This section is to be read in conjunction with the AICPA Code of Professional Conduct (AICPA code) and other relevant ethical requirements.
- .03 An engagement quality review performed in accordance with this section is a specified response that is designed and implemented by the firm in accordance with [SQMS No. 1](#).<sup>2</sup> The performance of an engagement quality review is undertaken at the engagement level by the engagement quality reviewer on behalf of the firm.

#### Scalability

- .04 The nature, timing, and extent of the engagement quality reviewer's procedures required by this section vary depending on the nature and circumstances of the engagement or the entity. For example, for engagements involving fewer significant judgments made by the

engagement team, the engagement quality reviewer's procedures would likely be less extensive.

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

- .05 [SQMS No. 1](#) establishes the firm's responsibilities for its system of quality management and requires the firm to design and implement responses to address the quality risks in a manner that is based on, and responsive to, the reasons for the assessments given to the quality risks.<sup>3</sup> The specified responses in [SQMS No. 1](#)<sup>4</sup> include establishing policies or procedures addressing engagement quality reviews in accordance with this section.
- .06 The firm is responsible for designing, implementing, and operating the system of quality management. Under [SQMS No. 1](#), the objective of the firm is to design, implement, and operate a system of quality management for engagements performed by the firm in its accounting and auditing practice<sup>5</sup> that provides the firm with reasonable assurance that
- the firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
  - engagement reports issued by the firm or engagement partners are appropriate in the circumstances.<sup>6</sup>
- .07 As explained in [SQMS No. 1](#), the public interest is served by the consistent performance of quality engagements. Quality engagements are achieved through planning and performing engagements and reporting on them in accordance with professional standards and applicable legal and regulatory requirements. Achieving the objectives of those standards and complying with the requirements of applicable law or regulation involves exercising professional judgment and, when applicable to the type of engagement, maintaining professional skepticism.

<sup>1</sup> [Paragraph 35f](#) of [Statement on Quality Management Standards \(SQMS\) \(previously Statement on Quality Control Standards\) No. 1, A Firm's System of Quality Management](#) (QM sec. 10).

<sup>2</sup> See [footnote 1](#).

<sup>3</sup> [Paragraph 25](#) of SQMS No. 1.

<sup>4</sup> [Paragraph 35f](#) of SQMS No. 1.

<sup>5</sup> The term auditing and accounting practice is defined in [paragraph 17](#) of SQMS No. 1.

<sup>6</sup> [Paragraph 15](#) of SQMS No. 1.

- .08** An engagement quality review is an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon. The engagement quality reviewer's evaluation of significant judgments is performed in the context of professional standards and applicable legal and regulatory requirements. However, an engagement quality review is not intended to be an evaluation of whether the entire engagement complies with professional standards and applicable legal and regulatory requirements or with the firm's policies or procedures.
- .09** The engagement quality reviewer is not a member of the engagement team. The performance of an engagement quality review does not change the responsibilities of the engagement partner for managing and achieving quality on the engagement or for the direction and supervision of the members of the engagement team and the review of their work. The engagement quality reviewer is not required to obtain evidence to support the opinion or conclusion on the engagement, but the engagement team may obtain further evidence in responding to matters raised during the engagement quality review.

### Authority of This Section

- .10** This section contains the objective for the firm in following this section and requirements designed to enable the firm and the engagement quality reviewer to meet that stated objective. In addition, it contains related guidance in the form of application and other explanatory material and introductory material that provides context relevant to a proper understanding of this section and definitions. [SQMS No. 1](#)<sup>7</sup> explains the terms *objective*, *requirements*, *application material and other explanatory material*, *introductory material*, and *definitions*.

### Effective Date

- .11** This section is effective for
- audits or reviews of financial statements for periods beginning on or after December 15, 2025, and
  - other engagements in the firm's accounting and auditing practice beginning on or after December 15, 2025.

### Objective

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

## Definitions

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

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

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

**Relevant ethical requirements.** Principles of professional ethics and ethical requirements to which the engagement team and engagement quality reviewer, when undertaking an engagement quality review, are subject, which consist of the AICPA Code of Professional Conduct together with rules of applicable state boards of accountancy and applicable regulatory agencies that are more restrictive. (Ref: [par. .A11–.A14](#))

## Requirements

### Applying, and Complying With, Relevant Requirements

- .14** The firm and the engagement quality reviewer should have an understanding of this section, including the application and other explanatory material, to understand the objective of this section and to properly apply the requirements relevant to them.
- .15** The firm or the engagement quality reviewer, as applicable, should comply with each requirement of this section, unless the requirement is not relevant in the circumstances of the engagement.
- .16** The proper application of the requirements is expected to provide a sufficient basis for the achievement of the objective of this standard. However, if the firm or the engagement quality reviewer determines that the application of the relevant requirements does not provide a sufficient basis for the achievement of the objective of this standard, the firm or the engagement quality reviewer, as applicable, should take further actions to achieve the objective.

<sup>7</sup> Paragraphs 12 and A6–A9 of SQMS No. 1.

## Appointment and Eligibility of Engagement Quality Reviewers

- .17** The firm should establish policies or procedures that require the assignment of responsibility for the appointment of engagement quality reviewers to an individual or individuals with the competence, capabilities, and appropriate authority within the firm to fulfill the responsibility. Those policies or procedures should require such individual or individuals to appoint the engagement quality reviewer. (Ref: [par. .A1–.A3](#))
- .18** The firm should establish policies or procedures that set forth the criteria for eligibility to be appointed as an engagement quality reviewer. Those policies or procedures should require that the engagement quality reviewer (Ref: [par. .A4](#))
- not be a member of the engagement team;
  - have the competence and capabilities, including sufficient time, and the appropriate authority to perform the engagement quality review; (Ref: [par. .A5–.A10](#))
  - comply with relevant ethical requirements, including those addressing threats to the objectivity and independence of the engagement quality reviewer; and (Ref: [par. .A11–.A13](#))
  - comply with provisions of law and regulation, if any, that are relevant to the eligibility of the engagement quality reviewer. (Ref: [par. .A14](#))
- .19** The firm’s policies or procedures established in accordance with paragraph .18c should also address threats to objectivity created by an individual being appointed as the engagement quality reviewer after previously serving as the engagement partner. (Ref: [par. .A15–.A17](#))
- .20** The firm should establish policies or procedures that set forth the criteria for eligibility of individuals who assist the engagement quality reviewer. Those policies or procedures should require that such individuals
- not be members of the engagement team;
  - have the competence and capabilities, including sufficient time, to perform the duties assigned to them; and (Ref: [par. .A18](#))
  - 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
- require the engagement quality reviewer to take overall responsibility for the performance of the engagement quality review and

- 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](#))
- if the engagement quality review has not commenced, decline the appointment to perform the engagement quality review, or
  - 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:
- 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
  - 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](#))
  - 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](#))
- The names of the engagement quality reviewer and any individuals who assisted with the engagement quality review
  - An identification of the engagement documentation reviewed
  - The basis for the engagement quality reviewer's determination in accordance with [paragraph .27](#)
  - The notifications required in accordance with [paragraphs .26–.27](#)
  - The date of completion of the engagement quality review

## Application and Other Explanatory Material

### Appointment and Eligibility of Engagement Quality Reviewers

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

- .A1** Competence and capabilities that are relevant to an individual's ability to fulfill responsibility for the appointment of the engagement quality reviewer may include appropriate knowledge about the following:
- The responsibilities of an engagement quality reviewer
  - The criteria in paragraphs .18–.19 regarding the eligibility of engagement quality reviewers
  - The nature and circumstances of the engagement or the entity subject to an engagement quality review, including the composition of the engagement team
- .A2** The firm's policies or procedures may specify that the individual responsible for the appointment of engagement quality reviewers not be a member of the engagement team for which an engagement quality review is to be performed. However, in certain circumstances (for example, in the case of a smaller firm or a sole practitioner), it may not be practicable for an individual other than a member of the engagement team to appoint the engagement quality reviewer.

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

#### **Eligibility of the Engagement Quality Reviewer (Ref: [par. .18](#))**

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

#### **Eligibility Criteria for the Engagement Quality Reviewer**

*Competence and Capabilities, Including Sufficient Time (Ref: [par. .18a](#))*

- .A5** [SQMS No. 1](#) describes characteristics related to competence, including the integration and application of technical competence, professional skills, and professional ethics, values, and attitudes.<sup>8</sup> 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

<sup>8</sup> [Paragraph A92](#) of SQMS No. 1.

**.A6** The conditions, events, circumstances, actions, or inactions considered by the firm in determining that an engagement quality review is an appropriate response to address one or more quality risks<sup>9</sup> may be important to the firm's determination of the competence and capabilities required to perform the engagement quality review for that engagement. Other considerations that the firm may take into account in determining whether the engagement quality reviewer has the competence and capabilities, including sufficient time, needed to evaluate the significant judgments made by the engagement team and the conclusions reached thereon include, for example, the following:

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

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

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

*Appropriate Authority (Ref: [par. .18a](#))*

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

may include actions the engagement quality reviewer may take when a disagreement occurs between the engagement quality reviewer and the engagement team.

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

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

*Relevant Ethical Requirements (Ref: [par. .13](#) and [.18c](#))*

**.A11** The relevant ethical requirements that are applicable when undertaking an engagement quality review may vary, depending on the nature and circumstances of the engagement or the entity. Various provisions of relevant ethical requirements may apply to an individual, such as an engagement quality reviewer, and not the firm itself. For example, if a firm uses an external provider to perform an engagement quality review, that individual may be subject to independence requirements; however, the independence requirements imposed on that individual as a result of performing the engagement quality review may not extend to the entire firm for which that individual works.

*Threats to the Objectivity of the Engagement Quality Reviewer*

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

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

<sup>9</sup> See footnote 8.

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

*Law or Regulation Relevant to the Eligibility of the Engagement Quality Reviewer (Ref: [par. .18d](#))*

**.A14** Law or regulation may prescribe additional requirements regarding the eligibility of the engagement quality reviewer. For example, the audit requirements of the FDIC regulations<sup>10</sup> for certain financial institutions require the auditor (which includes the engagement quality reviewer) to be in compliance with the AICPA's Code of Professional Conduct and also meet the independence requirements and interpretations of the SEC and its staff.

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

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

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

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

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

*Circumstances in Which the Engagement Quality Reviewer Uses Assistants (Ref: [par. .20–.21](#))*

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

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

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

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

- .A21** The firm's policies or procedures may include responsibilities of the engagement quality reviewer to
- consider whether assistants understand their instructions and whether the work is being carried out in accordance with the planned approach to the engagement quality review and
  - address matters raised by assistants, considering their significance and modifying the planned approach appropriately.

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

- .A22** Factors that may be relevant to the firm in considering whether the eligibility of the engagement quality reviewer to perform the engagement quality review is impaired include the following:
- Whether changes in the circumstances of the engagement result in the engagement quality reviewer no longer having the appropriate competence and capabilities to perform the review
  - Whether changes in the other responsibilities of the engagement quality reviewer indicate that the individual no longer has sufficient time to perform the review
  - Notification from the engagement quality reviewer in accordance with [paragraph .23](#)
- .A23** In circumstances in which the engagement quality reviewer's eligibility to perform the engagement quality review becomes impaired, the firm's policies or procedures may set out a process by which alternative eligible individuals are identified. The firm's policies or procedures may also address the responsibility of the individual appointed to replace the engagement quality reviewer to perform procedures sufficient to fulfill the requirements of this section with respect to the performance of the engagement quality review. Such policies or procedures may further address the need for consultation in such circumstances and may include, for example, the following:
- Evaluation of whether procedures performed by the previous engagement quality reviewer could be relied on by the newly assigned engagement quality reviewer or whether all work would need to be reperformed
  - Consideration of the effect of an engagement quality review assistant on the transition, when such assistant has been involved in the engagement quality review prior to transition

- Procedures undertaken by the engagement team to inform the newly assigned engagement quality reviewer about planning meeting discussions that have already occurred and other matters in which the previous engagement quality reviewer had been involved
- Documentation of the circumstances necessitating the change

## **Performance of the Engagement Quality Review (Ref: [par. .24–.27](#))**

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

- .A24** Statement on Auditing Standards (SAS) No. 146, *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards (AU-C sec. 220)*,<sup>11</sup> 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*,<sup>12</sup> also establishes requirements for the engagement partner in relation to the engagement quality review.

<sup>11</sup> Paragraph 36 of Statement on Auditing Standards (SAS) No. 146, *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards (AU-C sec. 220)*.

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

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

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

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

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

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

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

- The reasons for the assessments given to quality risks,<sup>13</sup> for example, engagements performed

for entities in emerging industries or with complex transactions.

- Identified deficiencies, and the remedial actions to address the identified deficiencies, related to the firm's monitoring and remediation process and any related guidance issued by the firm, which may indicate areas where more extensive procedures need to be performed by the engagement quality reviewer.
  - The complexity of the engagement.
  - The nature and size of the entity, including whether the entity is a listed entity.
  - Findings relevant to the engagement, such as the results of inspections undertaken by an external oversight authority in a prior period, or other concerns raised about the quality of the work of the engagement team.
  - Information obtained from the firm's acceptance and continuance of client relationships and specific engagements.
  - For assurance engagements, the engagement team's identification and assessment of, and responses to, risks of material misstatement in the engagement.
  - Whether members of the engagement team have cooperated with the engagement quality reviewer. The firm's policies or procedures may address the actions the engagement quality reviewer takes in circumstances in which the engagement team has not cooperated with the engagement quality reviewer, for example, informing an appropriate individual in the firm so appropriate action can be taken to resolve the issue.
- .A31** The nature, timing, and extent of the engagement quality reviewer's procedures may need to change based on circumstances encountered in performing the engagement quality review.

### *Group Audit Considerations*

**.A32** The performance of an engagement quality review for an audit of group financial statements may involve additional considerations for the individual appointed as the engagement quality reviewer for the group audit, depending on the size and complexity of the group. [Paragraph .21a](#) requires the firm's policies or procedures to require the engagement quality reviewer to take overall responsibility for the performance of the engagement quality review. In doing so, for larger and more complex group audits, the group engagement quality reviewer may need to discuss significant matters and significant judgments with key members of the engagement team other than the group auditor (for example, a component auditor). In these circumstances,

<sup>13</sup> [Paragraph A49](#) of SQMS No. 1.

the engagement quality reviewer may be assisted by individuals in accordance with [paragraph .20](#). The guidance in [paragraph .A22](#) may be helpful when the engagement quality reviewer for the group audit is using assistants. [As amended, effective for audits or reviews of financial statements for periods beginning on or after December 15, 2025, and other engagements in the firm's accounting and auditing practice beginning on or after December 15, 2025, by SQMS No. 3.]

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

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

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

*Significant Matters and Significant Judgments (Ref: [par. .25b–c](#))*

- .A35** For audits of financial statements, SAS No. 146<sup>14</sup> requires the engagement partner to review audit documentation relating to significant matters<sup>15</sup> and

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

- .A36** For audits of financial statements, SAS No. 146<sup>16</sup> provides examples of significant judgments that may be identified by the engagement partner related to the overall audit strategy and audit plan for undertaking the engagement, the execution of the engagement, and the overall conclusions reached by the engagement team.
- .A37** For engagements other than audits of financial statements, the significant judgments made by the engagement team may depend on the nature and circumstances of the engagement or the entity. For example, in an attestation engagement performed in accordance with Statements on Standards for Attestation Engagements, the engagement team's determination of whether the criteria to be applied in the preparation of the subject matter information are suitable for the engagement may involve or require significant judgment.
- .A38** In performing the engagement quality review, the engagement quality reviewer may become aware of other areas where significant judgments would have been expected to be made by the engagement team for which further information may be needed about the engagement team's procedures performed or the basis for conclusions reached. In those circumstances, discussions with the engagement quality reviewer may result in the engagement team concluding that additional procedures need to be performed.
- .A39** The information obtained in accordance with [paragraphs .25a–b](#), and the review of selected documentation, assists the engagement quality reviewer in evaluating the engagement team's basis for making the significant judgments. Other considerations that may be relevant to the engagement quality reviewer's evaluation include, for example, the following:
- Remaining alert to changes in the nature and circumstances of the engagement or the entity that may result in changes in the significant judgments made by the engagement team
  - Applying an unbiased view in evaluating responses from the engagement team
  - Following up on inconsistencies identified in reviewing engagement documentation or inconsistent responses by the engagement team to questions relating to the significant judgments made

<sup>14</sup> Paragraph 31 of SAS No. 146.

<sup>15</sup> Paragraph .08c of AU-C section 230, *Audit Documentation*.

<sup>16</sup> Paragraph A93 of SAS No. 146.

- .A40** The firm’s policies or procedures may specify engagement documentation to be reviewed by the engagement quality reviewer. In addition, such policies or procedures may indicate that the engagement quality reviewer exercises professional judgment in selecting additional engagement documentation to be reviewed relating to significant judgments made by the engagement team.
- .A41** Discussions about significant judgments with the engagement partner and, if applicable, other members of the engagement team, together with the engagement team’s documentation, may assist the engagement quality reviewer in evaluating the maintenance of professional skepticism, when applicable to the engagement, by the engagement team in relation to those significant judgments.
- .A42** For audits of financial statements, SAS No. 146<sup>17</sup> 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*;<sup>18</sup> AU-C section 540, *Auditing Accounting Estimates and Related Disclosures*;<sup>19</sup> and other AU-C sections also provide examples of areas in an audit where the auditor maintains professional skepticism or examples of where appropriate documentation may help provide evidence about how the auditor maintained professional skepticism. Such guidance may also assist the engagement quality reviewer in evaluating the maintenance of professional skepticism by the engagement team.

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

- .A44** SAS No. 146<sup>20</sup> requires the engagement partner, prior to dating the auditor’s report, to take responsibility for determining whether relevant ethical requirements, including those related to independence, have been fulfilled.

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

- .A45** [SQMS No. 1](#)<sup>21</sup> addresses consultation on difficult or contentious matters and differences of opinion within the engagement team or between the engagement team and the engagement quality reviewer or individuals performing activities within the firm’s system of quality management.

*Sufficient and Appropriate Involvement of the Engagement Partner on the Engagement (Ref: [par. .25f](#))*

- .A46** SAS No. 146<sup>22</sup> requires the engagement partner to determine, prior to dating the auditor’s report, that the engagement partner’s involvement has been sufficient and appropriate throughout the audit engagement such that the engagement partner has the basis for determining that the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the engagement. SAS No. 146 also indicates that the documentation of the involvement of the engagement partner may be accomplished in different ways. Discussions with the engagement team, and review of such engagement documentation, may assist the engagement quality reviewer’s evaluation of the basis for the engagement partner’s determination that the engagement partner’s involvement has been sufficient and appropriate.
- .A47** SAS No. 146 is adapted, as necessary, to engagements performed in accordance with generally accepted auditing standards other than audits of financial statements. Accordingly, the requirement in [paragraph .25f](#) is applicable to those engagements.

*Engagement Quality Reviewer’s Review of Financial Statements and Engagement Reports (Ref: [par. .25g](#))*

- .A48** For audits of financial statements, the engagement quality reviewer’s review of the financial statements and auditor’s report thereon is consistent with the engagement quality reviewer’s understanding of those matters based on the review of selected engagement documentation and discussions with the engagement team. In reviewing the financial statements or financial information, the engagement quality reviewer may also become aware of other areas where significant judgments would have been expected to be made by the engagement team for which further information may be needed about the engagement team’s procedures

<sup>17</sup> Paragraphs A33–A35 of SAS No. 146.

<sup>18</sup> Paragraph .A255 of AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*.

<sup>19</sup> Paragraph .A11 of AU-C section 540, *Auditing Accounting Estimates and Related Disclosures*.

<sup>20</sup> Paragraph 21 of SAS No. 146.

<sup>21</sup> [Paragraphs 32d–e](#) and [A80–A83](#) of SQMS No. 1.

<sup>22</sup> Paragraph 40a of SAS No. 146.

or conclusions. The guidance in this paragraph also applies to reviews of financial statements or financial information and the related engagement report.

- .A49** For engagements other than audits or reviews of financial statements or financial information, the engagement quality reviewer's review of the engagement report and, when applicable, the subject matter information may include considerations similar to those described in [paragraph .A46](#) (for example, whether the presentation or description of matters relating to the significant judgments made by the engagement team are consistent with the engagement quality reviewer's understanding based on the procedures performed in connection with the engagement quality review).

Unresolved Concerns of the Engagement Quality Reviewer  
(Ref: [par. .26](#))

- .A50** The firm's policies or procedures may specify the individual or individuals in the firm to be notified if the engagement quality reviewer has unresolved concerns that the significant judgments made by the engagement team, or the conclusions reached thereon, are not appropriate. Such individuals may include the individual assigned the responsibility for the appointment of engagement quality reviewers. With respect to such unresolved concerns, the firm's policies or procedures may also require consultation within or outside the firm (for example, a professional or regulatory body).

#### Documentation (Ref: [par. .28–.30](#))

- .A51** [Paragraphs 58–61](#) of SQMS No. 1 address the firm's documentation of its system of quality management, which includes the firm's policies and procedures addressing engagements that are required to be subject to engagement quality reviews. This section addresses additional documentation requirements related to such policies and procedures as well as documentation requirements related to the performance of engagement quality reviews undertaken at the engagement level.
- .A52** The form, content, and extent of the documentation of the engagement quality review may depend on the following factors:
- The nature and complexity of the engagement
  - The nature of the entity
  - The nature and complexity of the matters subject to the engagement quality review
  - The extent of the engagement documentation reviewed
- .A53** The performance and notification of the completion of the engagement quality review may be documented in a number of ways. For example, the engagement quality reviewer may document the review of engagement documentation electronically in the IT application for the performance of the engagement. Alternatively, the engagement quality reviewer may document the review through means of a memorandum. The engagement quality reviewer's procedures may also be documented in other ways, for example, in the minutes of the engagement team's discussions when the engagement quality reviewer was present.
- .A54** [Paragraph .24b](#) requires that the firm's policies or procedures preclude the engagement partner from releasing the engagement report until the completion of the engagement quality review, which includes resolving matters raised by the engagement quality reviewer. Provided that all requirements with respect to the performance of the engagement quality review have been fulfilled, the documentation of the review may be finalized after the release of the engagement report but before the assembly of the final engagement file.