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Quality Management Standards Implementation- AICPA Tool Kit

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Coastal Peer Review

Administered by The North Carolina and
Maryland Associations of CPAs

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Setting the Stage – Overall Objective of QM Standards

- Establish the quality related requirements for firm accounting and auditing practices
- Enable the AICPA to communicate objectives and expectations regarding quality
- Adherence is:
 - Required through adherence to the Code of Professional Conduct
 - Evaluated through peer review, firm monitoring and evaluation, and the performance of engagement quality reviews (as applicable)
- The stated objective in the new QM standards explains (consistent with QC standards):
 - Design, implement, and operate a system of quality management for engagements performed by the firm in its A&A practice that provides the firm with reasonable assurance that:
 - a) The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements and conduct engagements in accordance with such standards and requirements, and
 - b) Engagement reports issued by the firm are appropriate in the circumstances.

Statements on Quality Management Standards

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

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

SQMS 1
(supersedes SQCS 8)

SQMS 2 (new,

AU-C 220
(Revised)

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

Key SQMS 1 changes

Key aspects that clarify and improve existing SQSC include:

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

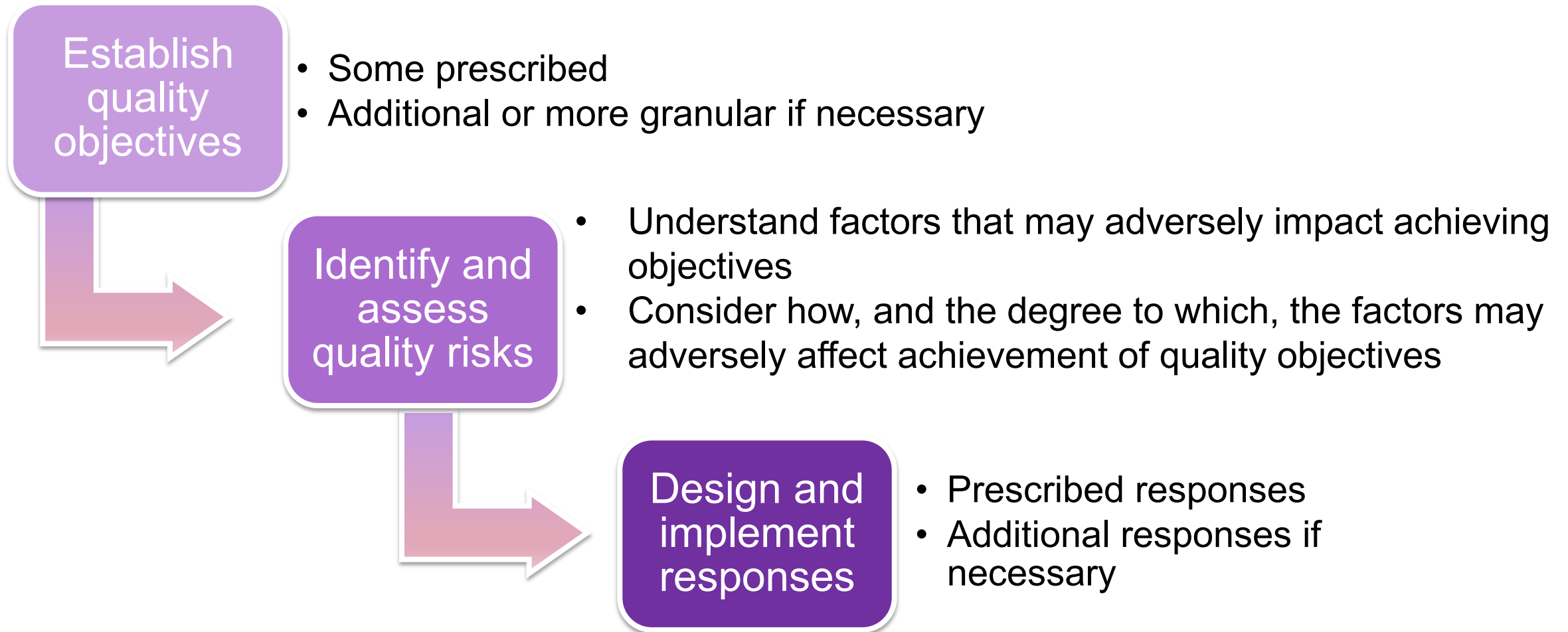


SQMS 1: The System and Its Components

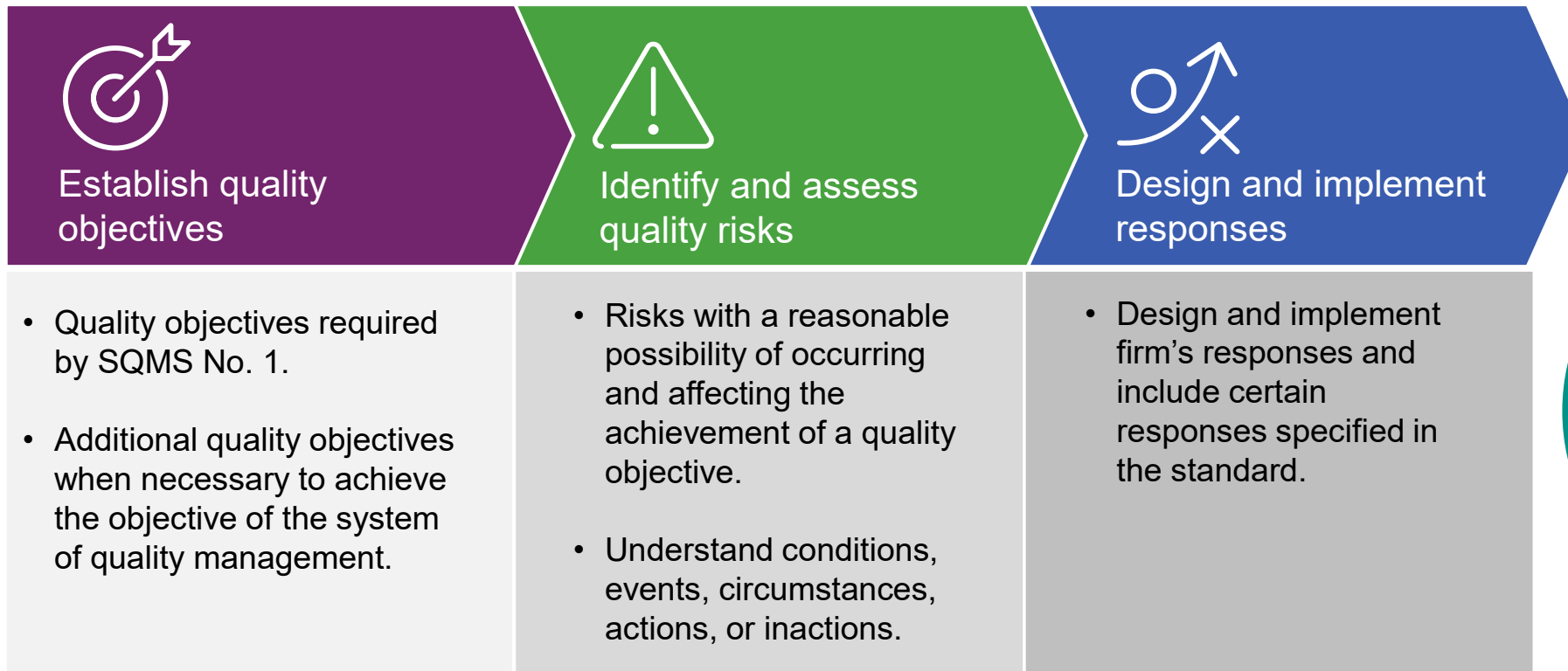
QC Sec. 10	New SQMS 1
No equivalent	Firm risk assessment process
Leadership responsibilities for quality within the firm	Governance and leadership
Relevant ethical requirements	Relevant ethical requirements
Acceptance and continuance of client relationships and specific engagements	Acceptance and continuance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



SQMS 1: Risk assessment process



The risk assessment process (NEW!)

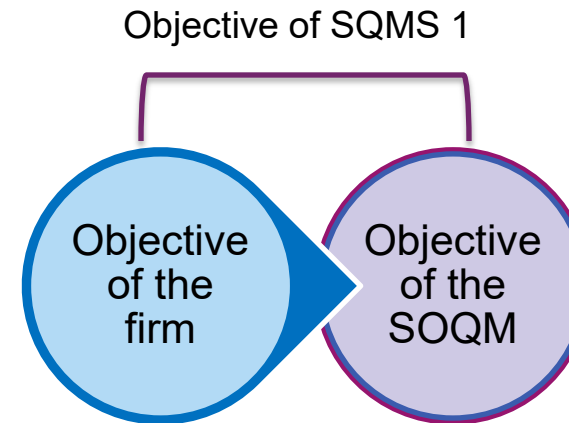


Establish policies or procedures to identify information indicating the need for additions or modifications to quality objectives, quality risks, or responses.

The Firm's Risk Assessment Process: Quality Objectives

Establish quality objectives:

- Quality objectives specified in the components
- Additional quality objectives needed to achieve the objectives of the SOQM
 - Based on firm judgement; unlikely to be needed



Optional: Establish sub-objectives

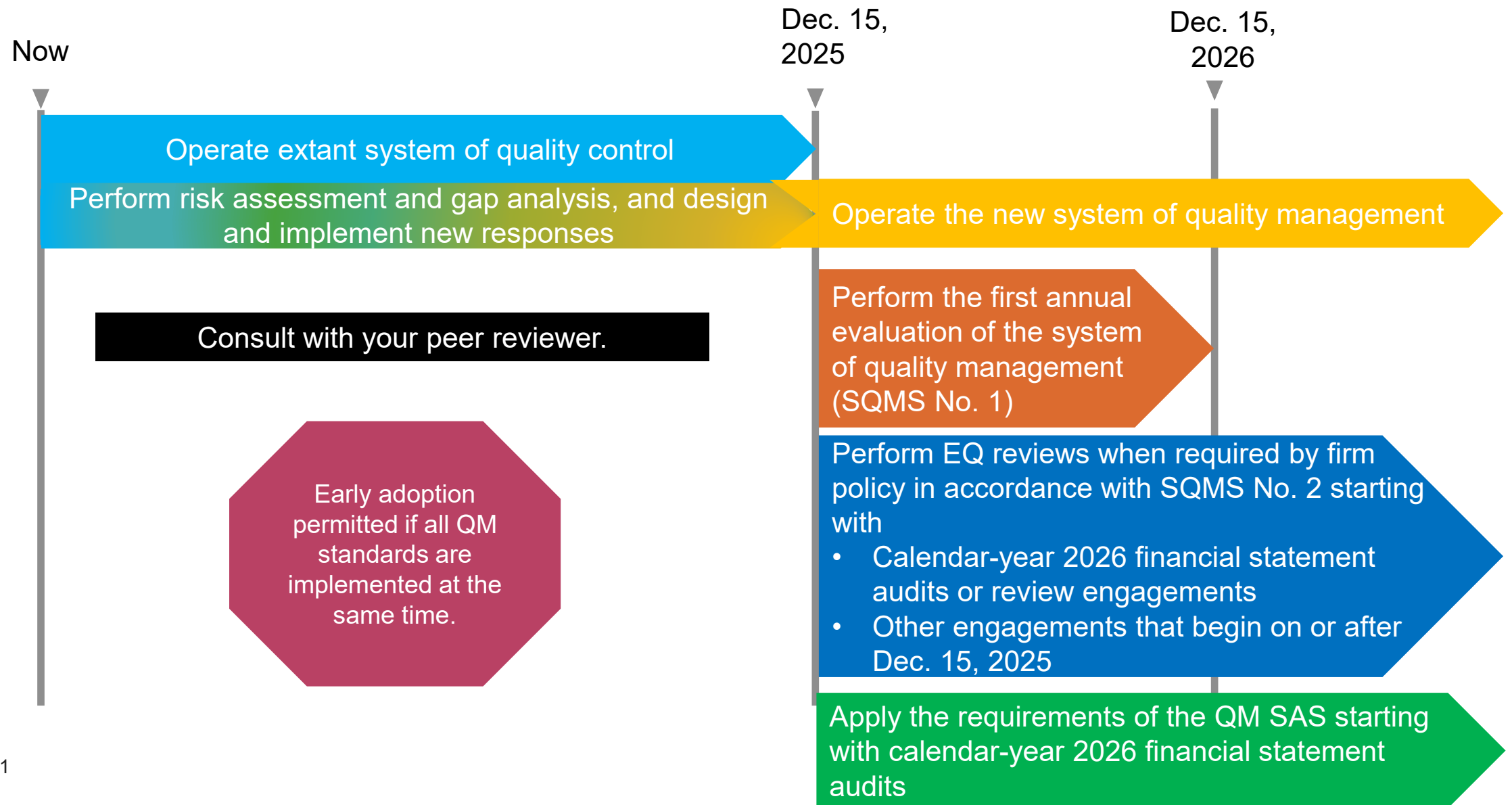
- May enhance identification and assessment of quality risks and designing responses

Partially established quality objective is a deficiency, unless it is not relevant to the firm

Quality objectives – components:

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

Understanding effective dates



Important!

Information on Effective Date

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

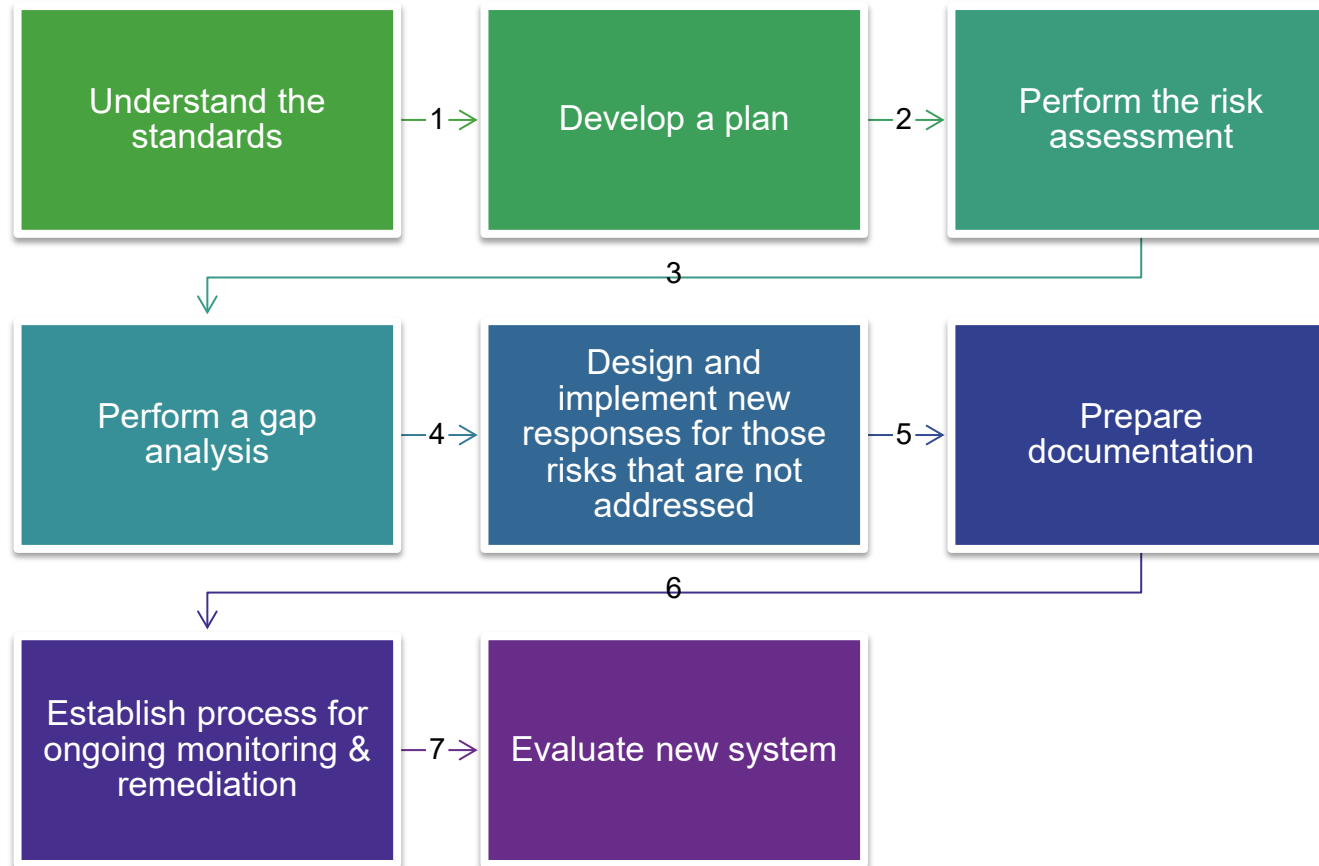
- *If you have not started, need to start now,*
- *Do it right the first time,*
- *Get it done on time*



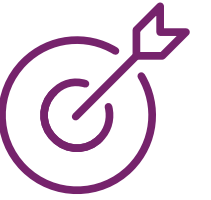
Firm implementation checklist – deep dive

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

How to get there from here



How to get there from here



1. Understand the standards

- Gain an overall understanding of the standards. The AICPA has developed the following resources to help you:
 - Executive Summaries of the standards
 - Mapping document showing QC to QM
 - AICPA webcasts, CPE course
 - AICPA practice aid and risk assessment template
 - Dedicated webpage at aicpa-cima.com/auditqm

How to get there from here



2. Develop a plan for implementation

- Who in the firm will own and lead the implementation process?
- What resources will be needed for successful implementation?
- Talk with your peer reviewer
- Determine how information will be documented
- Develop a timeline



3. Perform the risk assessment

- Establish the required quality objectives
- Identify and assess quality risks
 - No formal ratings or score required
 - Can do one component at a time



3. Plan a RA brainstorming session

- Determine which component(s) to address
- Determine the participants for this session
- Decide what tools you will use for the session: template, whiteboard, sticky notes...



3. Hold a RA brainstorming session

- Set a time limit and stick to it.
- Focus on identifying and assessing the risks, not developing a response to the risks
- No formal ratings or score required
- Remember risk assessment is iterative and the firm may find more ideas with more experience



3. Hold a RA brainstorming session

- Brainstorm identifying risks by area
- Think about what could go wrong from a quality perspective
- What has to happen for things to go right? What could stop those things from happening?
- Consider information the firm may have about current quality risks

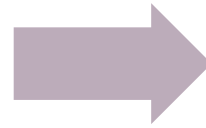


3. Hold a RA brainstorming session

- Assess identified risks for likelihood and magnitude to decide which risks are quality risks
 - Could be separate session
 - May take some iterations to get level right (not too granular or too high-level)
 - Do just enough to decide risk will warrant response and move on

Risk Assessment Process: Identify and Assess Quality Risks

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



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



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

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

How to get there from here



4. Perform a gap analysis

- Match the quality risks to your current responses (that is, policies or procedures)
- Identify any quality risk without any appropriate responses
- Identify any current responses that don't map to a quality risk
- Make sure to include responses required by SQMS No. 1

How to get there from here



5. Design and implement new responses for those risks that are not addressed

- Helpful resources include AICPA Practice Aids, third-party providers of Quality Management Materials, and peer reviewers.
- Current responses that don't map to a risk may no longer be necessary.

How to get there from here



6. Prepare documentation

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

How to get there from here



7. Establish process for ongoing monitoring & remediation



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

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

How to get there from here



8. Evaluate new system

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

Quality Management Resources

aicpa-cima.com/auditqm

Resource Title	Date	File Size	Source
ASB project: quality management	May 25, 2022	-	AICPA
Crosswalk between SQMS No. 1 and SQCS No. 8, as amended	Jun 01, 2022	560.8 KB	-
Executive summary of SQMS Nos. 1 - 2 and SAS No. 146	Jun 01, 2022	547 KB	-
SQMS Nos. 1 - 2, SAS No. 146, and SSARS No. 26 At a Glance	Jun 01, 2022	173.3 KB	-

How to find AICPA resources

The screenshot shows the AICPA-CIMA website interface. The browser address bar displays aicpa-cima.com/feed. The website header includes the AICPA & CIMA logo, a search bar with the text "Search AICPA-CIMA.com", and a user profile for "Ahava Goldman". The main navigation menu contains links for Home, About, Resources, Careers, Membership, News, Learning, Credentials, Business Solutions, and Local sites. The "Resources" link is highlighted with a yellow circle. Below the navigation menu, the "View By Topics" section is also highlighted with a yellow circle. This section lists various resource categories, with "Audit & Assurance" highlighted in a light purple box and circled in yellow. Other categories include Accounting & Financial Reporting, Climate & Sustainability/ESG, Employee Benefit Plans, Ethics, Firm Practice Management, Forensic Services, Government, Industry, Management Accounting & Finance, Not-for-Profit, People, Leadership & Advancement, Personal Financial Planning, Small Business Resiliency, Tax, and Technology. Valuation Services is also listed at the bottom of the grid.

[aicpa-cima.com/feed](#)

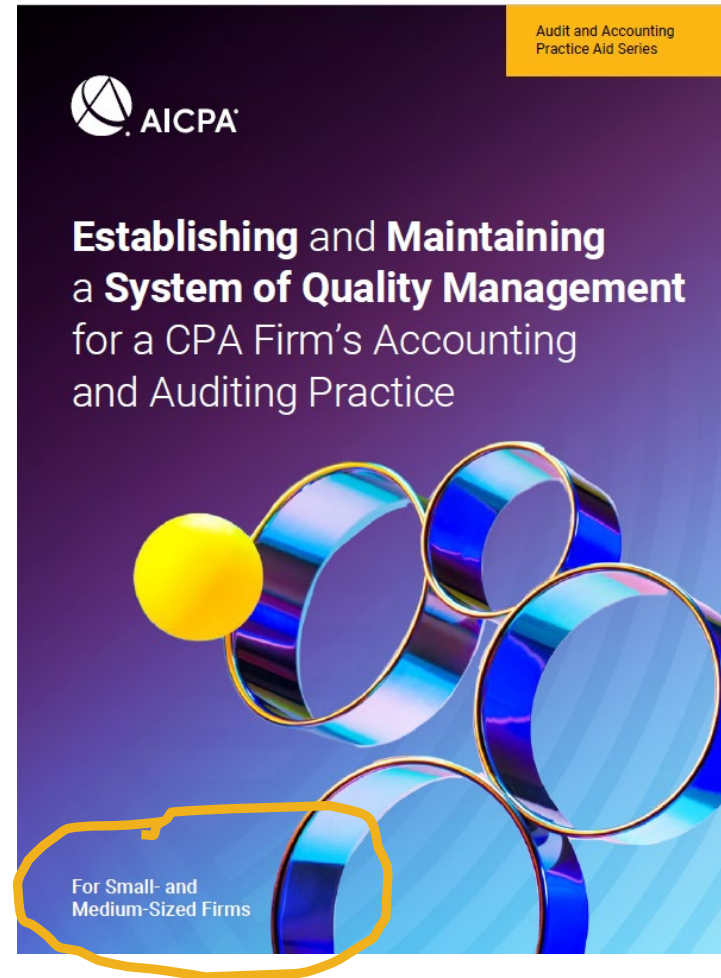
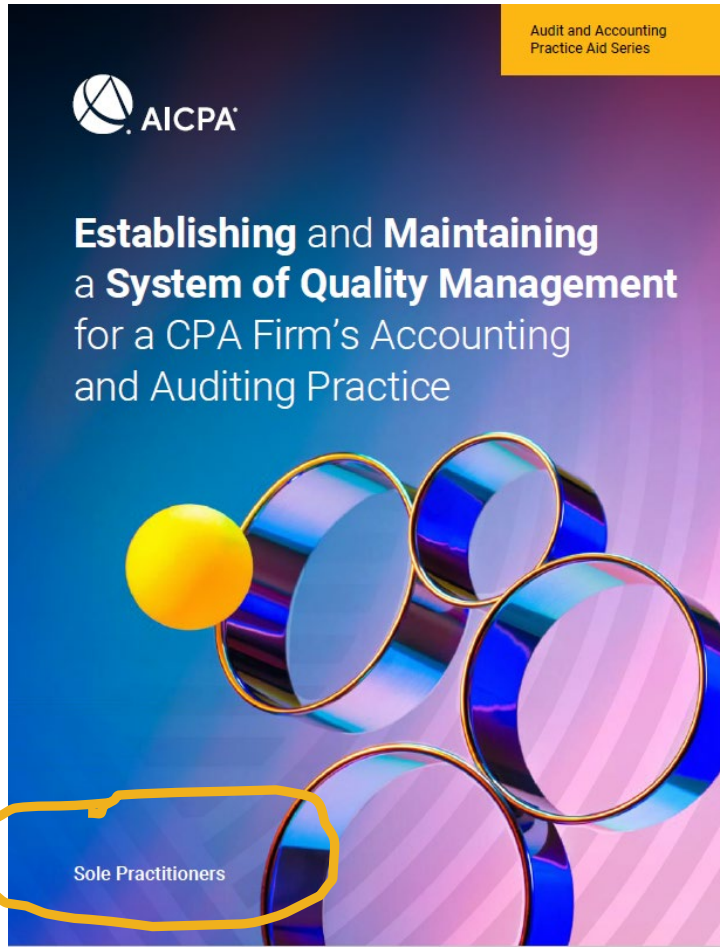
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- People, Leadership & Advancement
- Personal Financial Planning
- Small Business Resiliency
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Quality Management Practice Aid



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

Practice Aid Contents

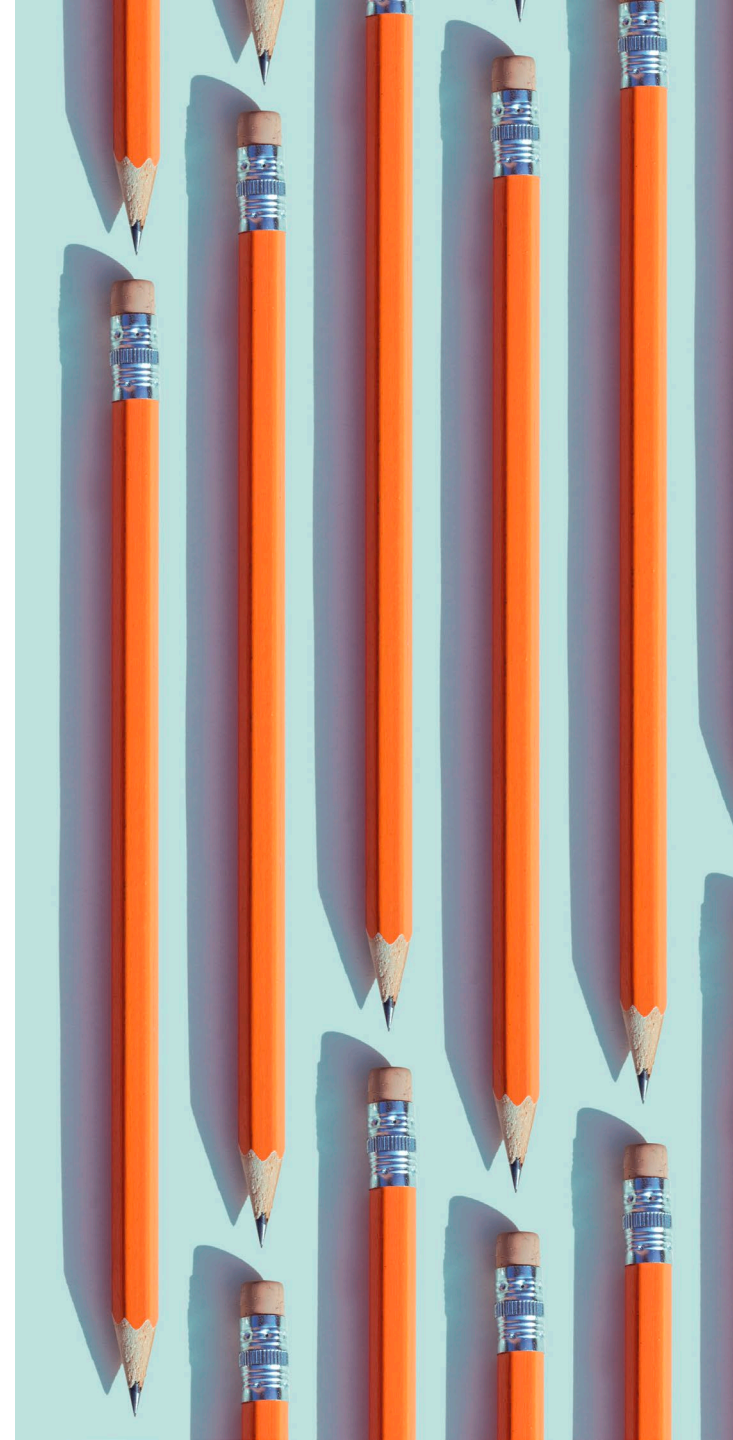
- Chapter 1: Overview of Statement on Quality Management Standards No. 1
- Chapter 2: Overview of Risk Assessment Requirements
- Chapter 3: Library of Quality Objectives, Potential Risks, and Potential Responses
- Chapter 4: Monitoring and Remediation Process

<https://www.aicpa-cima.com/resources/download/free-practice-aid-set-up-your-a-and-a-quality-management-system>

QM implementation practice aid

Chapter 3 – library of potential quality risks and responses

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



Illustrative practice aid – engagement performance example

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. (Ref: par. A80-A81)					
QO#	QRi#	Quality Risk	Likelihood	Impact	Quality Risk	Quality Response	Qre #
EP QO-2	EP QRi-32	Team members including component auditors and remote workers 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-4.02

Illustrative practice aid – government & leadership example

GOV QO-1		<p>The firm demonstrate 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"> 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 SOQM 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 					
QO#	QRi#	Quality Risk	Likelihood	Impact	Quality Risk	Quality Response	Qre #
GOV QO-1	GOV QRi-5	The firm does not recognize or reinforce the importance of quality in the firm’s strategic decisions and actions, including the firm’s financial and operational priorities.	Medium	High	Yes	The firm's strategic decision-making process is aligned with the firm's quality objectives and approved by leadership with the ultimate responsibility for the firm's system of quality management.	GOV Qre-4.04

Illustrative practice aid – relevant ethical requirement example

RER QO-1	<p>The firm and its personnel</p> <ol style="list-style-type: none"> 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-5	Personnel and engagement teams are hesitant to communicate relevant information to the firm or those charged with overseeing relevant ethical requirements due to fear of reprisals	Low	High	Yes	The firm has a process [describe process] that protects professional personnel who report potential ethics or independence violations to the proper parties in compliance with firm policy	RER QRe-4.03

Illustrative practice aid – resources example

RES QO-2	Personnel demonstrate a commitment to quality through their actions and behaviors, demonstrate 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)						
QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk	Quality Response	Qre #
RES QO-2	RES QRi -10	Personnel, including partners, do not demonstrate a commitment to quality	Medium	High	Yes	The firm evaluates personal characteristics such as integrity, competence, and motivation of personnel on an ongoing basis	RES QRe- 5.01

Illustrative practice aid – information & communication example

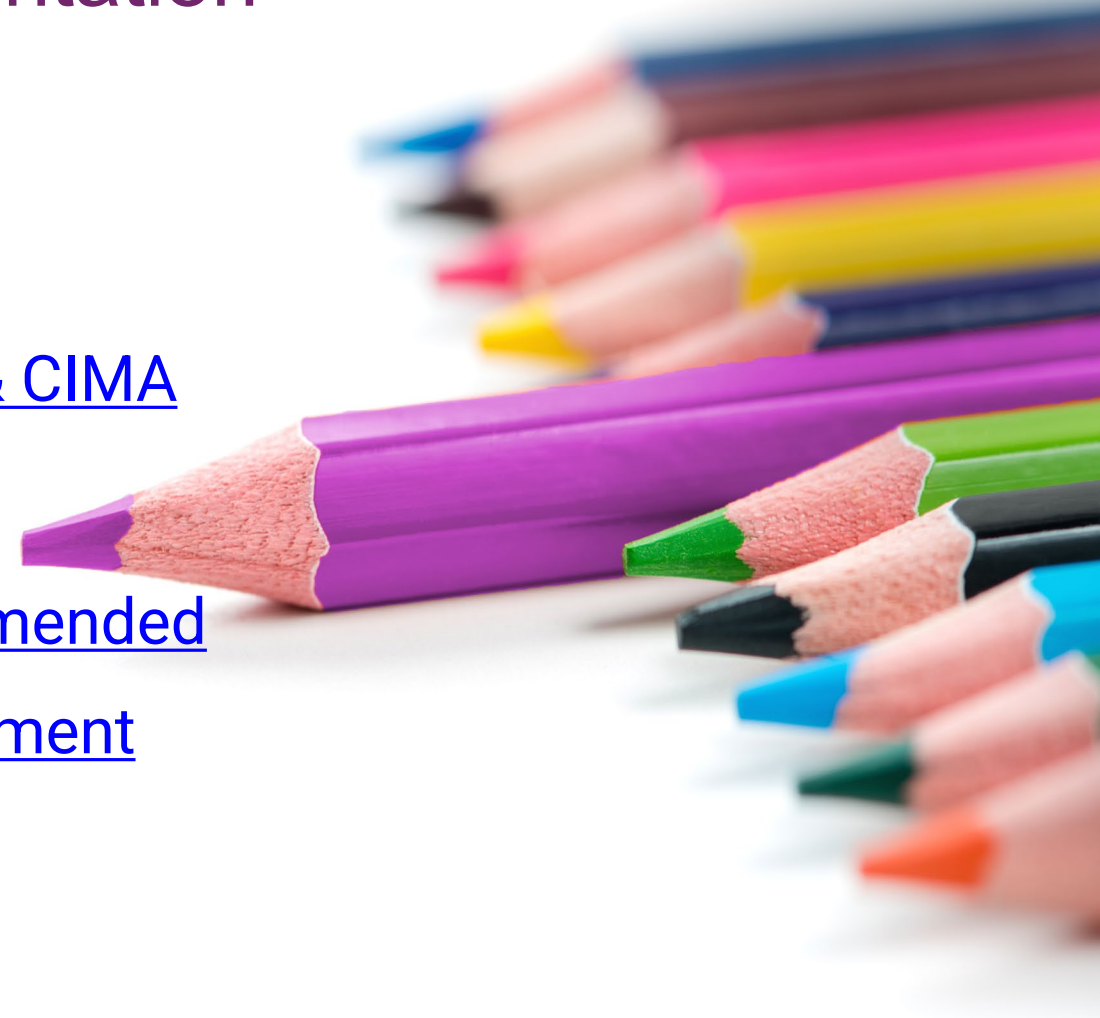
I&C QO-1	The information system identifies, captures, processes and maintains relevant and reliable information that supports the system of quality management, whether from internal or external sources.						
QO#	QRi #	Quality Risk	Likelihood	Impact	Quality Risk	Quality Response	Qre #
I&C QO-1	I&C QRi -11	The firm fails to identify a requirement to communicate with an external party.	Low	High	Yes	The firm communicates information externally when required by law, regulation or professional standards. For example, if the firm becomes 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

Resources to Support QM Implementation

- Quality Management Practice Aid

[Free practice aid: Set up your A&A quality management system | Resources | AICPA & CIMA \(aicpa-cima.com\)](#)

- [Mapping SQMS No. 1 and SQCS No. 8, as amended](#)
- [Firm checklist to guide your quality management system](#)
- [Webinar series](#)



Coastal Contact Information

Please submit any additional
questions to:

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