PacificCPE

COURSE
21856A

Quality Management, SSARS 27, and International Reporting

Wrap up your SSARS studies with three important topics: SSARS No. 26 introduces updated quality management standards and what they mean for your firm's engagement processes; SSARS No. 27 clarifies when AR-C Section 70 applies to financial statements prepared as part of a consulting engagement; and the final section addresses special considerations for international reporting issues under the AR-C framework. Together, these updates reflect the evolving landscape of accounting standards and help ensure your practice stays current and compliant.

CREDIT HOURS 2 | FIELD OF STUDY ACCOUNTING | EXAM QUESTIONS 10

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LEARNING ASSIGNMENTS AND OBJECTIVES

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Identify which party is responsible for determining that engagement team members have appropriate competence and capabilities to perform a SSARS engagement.
- Recognize when the requirements in AR-C 70 are not required to be applied in the preparation of financial statements per SSARS No. 27.
- Identify one of the requirements required by SSARS No. 24 when reporting on an international financial reporting framework.

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Section 6.1

SECTION VI. SSARS NO. 26: QUALITY MANAGEMENT FOR AN ENGAGEMENT CONDUCTED IN ACCORDANCE WITH STATEMENTS ON STANDARDS FOR ACCOUNTING AND REVIEW SERVICES

Chapter Objective

After completing this chapter, you should be able to:

- Identify which party is responsible for determining that engagement team members have appropriate competence and capabilities to perform a SSARS engagement.

I. SSARS NO. 26

A. GENERAL

Issued: June 2022

Effective Date

The amendments to AR-C 60, 70, 80, and 90 included as paragraphs 1-4 of SSARS No. 26 and are effective for engagements performed in accordance with SSARSs for periods beginning on or after December 15, 2025.

The amendment to AR-C 90 included as paragraph 5 of SSARS No. 26 is effective upon issuance.

Objectives

The objectives of issuing SSARS No. 26 are to enhance certain concepts related to quality management for SSARS engagements and to ensure that certain concepts related to quality management, where appropriate, are consistent between the auditing standards and SSARSs.

Summary of SSARS No. 26

In June 2022, the Accounting and Review Services Committee (ARSC) issued Statement on Standards for Accounting and Review Services (SSARS) No. 26, *Quality Management for an Engagement Conducted in Accordance With Statements on Standards for Accounting and Review Services* to amend AR-C 60, 70, 80, and 90.

According to the ARSC, the objectives of issuing SSARS No. 26 are:

- To enhance certain concepts related to quality management for SSARS engagements, and

- To ensure that certain concepts related to quality management, where appropriate, are consistent between the auditing standards and SSARSs.

The amendments to AR-C 60, 70, 80, and 90 included as paragraphs 1–4 of SSARS No. 26 are effective for engagements performed in accordance with SSARSs for periods beginning on or after December 15, 2025.

SSARS No. 26 also makes a minor technical revision to paragraph .16 of AR-C 90, *Review of Financial* Statements, to remove the requirement that a review engagement letter be obtained *prior to the start of the review engagement*. In revising this paragraph, the timing as to when an engagement letter is required is consistent among all SSARS engagements and between SSARS and audit and attestation standards.

This paragraph .16 amendment to AR-C 90 is included as paragraph 5 of SSARS No. 26 and is effective upon issuance.

Background

In June 2023, the Auditing Standards Board (ASB) and the Accounting and Review Services Committee issued four interrelated final standards on quality management (collectively, QM standards):

- Statement on Quality Management Standards (SQMS) No. 1, *A Firm's System of Quality Management*
- SQMS No. 2, *Engagement Quality Reviews*
- SAS No. 146, *Quality Management for an Engagement Conducted in Accordance With* Generally Accepted Auditing Standards*
- SSARS No. 26, *Quality Management for an Engagement Conducted in Accordance With Statements on Standards for Accounting and Review Services*

SQMS Nos. 1 and 2, SAS No. 146, and SSARS No. 26 are collectively referred to as the *"quality management standards."*

The new Quality Management (QM) Standards affect all firms that perform accounting and auditing engagements under the SASs, SSAEs and SSARSs, starting in 2025 and 2026.

Collectively, the new standards do the following:

- Offer a new risk-based approach, incorporating a risk assessment process driving firms to focus on quality management tailored to their circumstances
- Provide revised components of the system of quality management — two new components, including information and communication
- Include more robust leadership and governance requirements

- Require enhanced monitoring and remediation processes, and
- Establish new requirements for networks and service providers.

The new QM standards affect every firm that performs engagements in accordance with the SASs, SSAEs, or SSARSs.

Details of each of the standards follow:

Comparison of New QM Standards with Previous Standards

Standard	What It Replaces
SQMS No. 1, *A Firm's System of Quality Management* SQMS No. 2, *Engagement Quality Reviews* SQMS No. 3, *Amendments to QM Sections 10, A Firm's System of Quality Management, and 20, Engagement Quality Reviews*	Replace existing SQCS No. 8, *A Firm's System of Quality Control (QC sec. 10)*
SAS No. 146, *Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards*	Updates and supersedes AU-C 220, *Quality Control for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards*, to conform with SQMS No. 1 and 2
SSAE No. 23, *Amendments to the Attestation Standards for Consistency with the Issuance of AICPA Standards on Quality Management*	Amends the SSAEs to align certain concepts in the attestation standards related to quality management, where appropriate, with the suite of other QM standards
SSARS No. 26, *Quality Management for an Engagement Conducted in Accordance with Statements on Standards for Accounting and Review Services*	Amends the SSARSs to conform with SQMS Nos. 1 and 2 and to be consistent with the changes made by SAS No. 146

Summary of QM Standards	
New QM Standard	**What It Does**
SQMS No. 1: ***A Firm's System of Quality Management***	Requires a firm to design, implement, and operate a system of quality management that is customized for the nature and circumstances of its accounting and auditing practice. It consists of: • **Eight components** that operate in an iterative and integrated manner. • Other requirements that address the roles and responsibilities for the system, leadership's overall evaluation of the system, network requirements or network services, and documentation. SQMS No. 1 introduces a new risk-assessment process aimed at achieving quality objectives. The firm is required to establish prescribed quality objectives, assess quality risks, and design and implement responses. SQMS No. 1 requires the firm leadership to annually evaluate and conclude whether the system of quality management is meeting its objectives. Systems of quality management in compliance with SQMS No. 1 are required to be designed and implemented by December 15, 2025, and the evaluation of the system of quality management is required to be performed within one year following December 15, 2025.
SQMS No. 2, ***Engagement Quality Reviews***	Addresses the appointment and eligibility of the engagement reviewer and performance of engagement quality reviews. SQMS No. 2 only applies when the firm decides that an engagement quality (EQ) review is an appropriate response to a quality risk. SQMS No. 2 addresses the appointment and eligibility of the engagement quality reviewer and performance of engagement quality reviews. Eligibility requirements for EQ reviewers include: • Consider threats to objectivity but no cooling-off period required • Sufficient time to perform EQ review • Permitted use of qualified external EQ reviewers and assistants Performance of EQ reviews involves: • Focus on significant matters and significant judgments • Involvement of EQ reviewer at appropriate points in time throughout engagement SQMS No. 2 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.
SQMS No. 3, ***Amendments to QM Sections 10, A Firm's System of Quality Management, and 20, Engagement Quality Reviews***	Makes amendments to SQMS Nos. 1 and 2. SQMS No. 3 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.
SAS No. 146, ***Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards***	SAS No. 146: • Clarifies and strengthens the key elements of quality management at the engagement level • Focuses on the important role of the engagement partner in managing and achieving quality on the audit engagement • Reinforces the importance of quality to all members of the engagement team. • Encourages proactive management of quality at the engagement level by emphasizing the importance of the exercise of professional skepticism, enhancing the documentation of the auditor's judgments, and reinforcing the need for robust communications during the audit. • Addresses how the engagement partner leverages the firm's system and manages quality at the engagement level. SAS No. 146 makes clear that the engagement partner has overall responsibility for managing and achieving quality. SAS No. 146 becomes effective for audits of financial statements for periods beginning on or after December 15, 2025.

SSAE No. 23, ***Amendments to the Attestation Standards for Consistency with the Issuance of AICPA Standards on Quality Management***	SSAE No. 23 aligns certain concepts in the attestation standards related to quality management, where appropriate, with the suite of quality management standards.
	SSAE No. 23 primarily amends:
	• AT-C section 105, *Concepts Common to All Attestation Engagements*, but also amends:
	  ◦ AT-C section 205, *Direct Examination Engagements*
	  ◦ AT-C section 210, *Review Engagements*, and
	  ◦ AT-C section 215, *Agreed-Upon Procedures Engagements*
	SSAE No. 23 is effective for engagements performed in accordance with the SSAEs beginning on or after December 15, 2025.

SSARS No. 26, ***Quality Management for an Engagement Conducted in Accordance with Statements on Standards for Accounting and Review Services***	SSARS No. 26 amends AR-C 60, 70, 80, and 90 to conform the SSARSs to the new requirements made by SQMS Nos. 1 and 2. The SSARS No. 26 amendments: • Enhance certain concepts related to quality management for engagements performed in accordance with SSARSs • Ensure that certain concepts related to quality management, where appropriate, are consistent between auditing standards (SAS No. 146) and the SSARSs. • Include a technical revision to paragraph .16 of AR-C 90 regarding the timing of obtaining an engagement letter to make it consistent with other SSARS sections (AR-C 70, 80, and 120), and with auditing and attestation standards. All the amendments made by SSARS No. 26 (except paragraph .16 of AR-C 90) are effective for SSARS engagements performed for periods beginning on or after December 15, 2025 (calendar 2026 year end engagements). The amendment to paragraph .16 of AR-C 90 found in paragraph 5 of SSARS No. 26 is effective upon issuance.

Overview of SQMS No. 1 and 2 (as amended by SQMS No. 3)

Every accounting firm that performs engagements in accordance with the SASs, SSARSs, and SSAEs must comply with the new quality management (QM) standards.

1. The QM standards represent a significant change in how CPA firms will approach audit and attest quality in the future, moving from a policies-based approach to a risk-based approach.
2. SQMS No. 1, A Firm's System of Quality Management, supersedes Quality Control Standards No. 8, *A Firm's System of Quality Control*, and introduces a new risk-based assessment process.
   a) SQMS No. 1 requires firms to design, implement, and operate a system of quality management (QM) customized to their practice and engagements.
      - This includes establishing quality objectives, assessing the specific risks to quality, and designing and implementing responses to address those risks.
      - There are eight (8) components that operate in a system of QM.
      - The design and implementation must be done by December 15, 2025.

   b) After the new QM system is in place for one year under SQMS No. 1, the managing partner must evaluate the QM system and conclude whether there is reasonable assurance that objectives are being achieved. This evaluation must be done by December 15, 2026.

   c) In addition, firm leadership must evaluate annually whether the firm's system of quality management is meeting its objectives. The approach calls for continuous improvement and ongoing remediation over time. SQMS No. 1 supersedes Statement on Quality Control Standards No. 8, A Firm's System *of Quality Control.*
3. *SQMS No. 2, Engagement Quality Reviews,* applies when a firm decides that an engagement quality (EQ) review is an applicable response to address its engagement performance quality management objective.
   a) It addresses the appointment and eligibility of the engagement quality reviewer and performance of engagement quality reviews.

   b) It only applies when the firm decides that an engagement quality (EQ) review is an appropriate response to a quality risk.

   c) It addresses the appointment and eligibility of the engagement quality reviewer and performance of engagement quality reviews.
4. This new standard addresses the appointment and eligibility of the engagement quality reviewer (whether inside or outside of the firm) and performance of the EQ reviews.

B. OVERVIEW OF SSARS NO. 26

SQMS Nos. 1 and 2, SAS No. 146, and SSARS No. 26 are collectively referred to as the *"quality management standards."*

According to the ARSC, the collective development of the quality management standards in both auditing and the SSARSs was influenced by overall concerns about engagement quality, as indicated by the results of peer reviews and studies by regulators.

Moreover, the development of the quality management standards was influenced by the ASB's view that it is particularly important to converge with the quality management standards of the International Auditing and Assurance Standards Board (IAASB), which were updated and issued in December 2020.

SQMS No. 1 addresses the system of quality management in SAS, SSAE, and SSARS engagements, which forms the foundation for the management of quality.

Similarly, SSARS No. 26 addresses how, in a SSARSs engagement, an engagement partner leverages the firm's system and manages quality at the engagement level.

1. Similar to SAS No. 146, SSARS No. 26 makes clear that the engagement partner has overall responsibility for managing and achieving quality.

   This includes creating an environment that emphasizes the firm's culture and expected behavior of engagement team members. These behaviors include:

   - The responsibility of all engagement team members for quality
   - The importance of professional ethics, values, and attitudes, and
   - The importance of professional skepticism to a quality engagement.

2. The engagement partner remains ultimately responsible and accountable for compliance with the requirements of the SSARS.

Note

The phrase "*take responsibility for*" is used for those requirements for which the engagement partner is permitted to assign the design or performance of procedures, tasks, or actions to appropriately skilled or suitably experienced members of the engagement team.

3. SSARS No. 26 expressly intends that for all other requirements, the responsibility for those requirements must be fulfilled by the engagement partner.

   d) To fulfill these other requirements, the engagement partner may obtain information from the firm or other members of the engagement team, such as information to make the required decision or judgment.

   e) The engagement partner is required to determine that members of the engagement team collectively have the appropriate competence and capabilities to perform the engagement. To make a judgment on whether the competence and capabilities of the engagement team is appropriate, the engagement partner may need to use information compiled by the engagement team or from the firm's system of quality management.