

Auditing Standards Board approves significant changes in firm quality standards

May 13, 2022 | Faye Hayhurst, CPA



One of the most talked about standards proposals in recent memory has been finalized. On May 12, 2022, the Auditing Standards Board (ASB) [approved the most significant change](#) to quality control standards affecting a CPA firm's accounting and auditing practice since 2006.

Approved were the following standards (collectively, the QM standards):

- [Statement on Quality Management Standards \(SQMS\) No. 1](#), *A Firm's System of Quality Management*.
- [SQMS No. 2](#), *Engagement Quality Reviews*.
- [Statement on Auditing Standards No. 146](#), *Quality Management for an Engagement Conducted in Accordance With General Accepted Auditing Standards*.

SQMS No. 1 supersedes Statements on Quality Control Standards (SQCS) No. 8 and represents a move toward a risk-based approach to achieving quality objectives, where firms need to evaluate the risks that may have an impact on engagement quality and develop appropriate responses to address those risks.

The QM standards provide substantial enhancements to the responsibility of firm leadership for proactively managing quality. This is no one-size-fits all approach; a firm's leaders must customize the design, implementation, and operation of its system of quality management based on the nature and circumstances of the firm and the

the competence and objectivity to do so. However, for some firms, ongoing involvement of an external party may be the best response to address risks to quality.

A second controversy in the draft was in proposed SQMS No. 2: A required two-year “cooling off” period before an individual who had previously been the engagement partner could serve as the engagement quality reviewer (EQR) for an engagement. In the final standard, the principle that the EQR must be able to be objective is unchanged, but without rigid imposition of a prohibition that may not be relevant to a firm’s situation. Firms may choose to implement a cooling-off period, but it is not mandatory. More important is that the firm consider factors that could affect the EQR’s ability to be objective.

The third feature of the draft standards that generated much feedback was the original proposed effective date of Dec. 15, 2023. The final approved effective dates:

- Systems of quality management in compliance with SQMS No. 1 are required to be designed and implemented by Dec. 15, 2025, and the firm’s first evaluation of the system must take place within one year of that date.
- SQMS No. 2 is effective for audits or reviews of financial statements for periods beginning on or after Dec. 15, 2025, and other engagements in the firm’s accounting and auditing practice beginning on or after Dec. 15, 2025.
- SAS No. 146 is effective for engagements conducted in accordance with generally accepted auditing standards for periods beginning on or after Dec. 15, 2025.

Looking ahead

The ASB received more comment letters on this exposure draft — more than 170 — than on any other standard proposed in the past 15 years. The provisions of the final standard indicate that the comments submitted made a difference in the standard-setting process.

This standard will affect EVERY firm that performs engagements under SAS, SSARS, and SSAE. While no action is required immediately, firms need to understand this is on the near-term horizon. Education opportunities and implementation guidance will be coming in future months. Watch for it!

Topics: Accounting & Auditing