



Proposed Statement on  
Quality Management Standards

# *Engagement Quality Reviews*



## What?

An engagement quality (EQ) review is a specified response the firm designs and implements to address quality risks. An EQ reviewer performs the EQ review at the engagement level on behalf of the firm.

Proposed SQMS No. 1, *A Firm's System of Quality Management*, requires that the firm determine when an engagement quality review is an appropriate response to quality risks. Proposed SQMS Engagement Quality Reviews (proposed SQMS No. 2) addresses:

- the appointment and eligibility of the EQ reviewer and
- performance of EQ reviews.

## Why?

The changes are intended to respond to issues and challenges with the requirements for EQ reviews in extant Statement on Quality Control Standards (SQCS) No. 8, *A Firm's System of Quality Control* (QC sec. 10), and AU-C section 220, *Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*.

## How?

- By creating one standard that contains the requirements for EQ reviews, and by making changes that clarify and strengthen aspects of those requirements for a more robust EQ review
- By revising requirements that focus on the objective evaluation of the significant judgments the engagement team makes and the conclusions reached.



# What are the significant changes?

## Enhanced eligibility for EQ reviewers

- To address objectivity threats, such as self-review and familiarity, the proposed standard requires a two-year cooling-off period before the engagement partner can serve as EQ reviewer.

The ASB is interested in hearing from smaller firms about the scalability of this requirement.

- Requirements include having sufficient time to perform the EQ review

## Eligibility criteria for EQ reviewers

- Have competence, capabilities, including sufficient time, and appropriate authority.
- Comply with relevant ethical requirements, including objectivity and independence.

It requires the EQ reviewer to be responsible for the **overall performance of the EQ review** and determining the nature, timing and extent of the direction and supervision of assistants, and review of their work.

## Proposed effective date

Proposed SQMS No. 2 would be effective for:

- audits or reviews of financial statements for periods beginning on or after Dec. 15, 2023, and
- other engagements in the firm's accounting and auditing practice beginning on or after Dec. 15, 2023.

## More robust performance and documentation requirements

- Addresses the EQ reviewer's responsibilities to perform the EQ review at **appropriate points in time** during the engagement
- Focuses on **significant judgments** and **significant matters**, including the exercise of **professional skepticism** by the engagement team
- Requires the EQ reviewer to "stand back" to determine whether the performance requirements in SQMS No. 2 have been fulfilled
- Precludes the engagement partner from dating the engagement report until notification has been received from the EQ reviewer that the EQ review is complete
- Requires the firm to establish policies or procedures for:
  - o The EQ reviewer to take responsibility for documentation of the EQ review
  - o The documentation of the EQ review to be included with the engagement documentation
- Principles-based documentation requirements clarify that the firm's policies and procedures may:
  - o Specify engagement documentation to be reviewed by EQ reviewer.
  - o Indicate that the EQ reviewer exercises professional judgment in reviewing additional engagement documentation relating to the significant judgments.



## We want to hear your feedback

The Exposure Draft Proposed Quality Management Standards can be viewed on the AICPA's website under [Exposure Drafts of Proposed SASs, SSAEs, and SQCSs](#). The comment period ends Friday, June 11. Read more about these [here](#).

Comments on any or every aspect of the proposed standard should be sent to [commentletters@aicpa-cima.com](mailto:commentletters@aicpa-cima.com) and received by Aug. 31, 2021 (extended from June 11). The responses may be submitted in Word format or directly in the body of the email with an appropriate signature (name, firm). Unless the respondent explicitly permits otherwise, emailed comments will be posted without the sender's email address.



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