Quality Management Standards: What's Changing and What You Should Be Doing Now

What's changing?

In June 2022, the AICPA Auditing Standards Board (ASB) issued three interrelated standards on quality management (collectively, the QM standards). The new QM standards represent a significant change in how CPA firms will approach audit and attestation quality in the future, moving from a policies-based approach to a risk-based approach. Implementation of these new standards is required by Dec. 15, 2025.

The QM standards consist of the following:

- Statement on Quality Management Standards (SQMS) No. 1, *A Firm's System of Quality Management*[1]

  — SQMS No. 1 supersedes Statement on Quality Control Standards (SQCS) No. 8, *A Firm's System of Quality Control* (QC sec. 10), and requires the 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.

  — An engagement quality (EQ) review is a specified response the firm designs and implements to address quality risks; it is performed by an EQ reviewer at the engagement level on behalf of the firm. SQMS No. 1 requires that the firm determine when an EQ review is an appropriate response to quality risks.

- SQMS No. 2, *Engagement Quality Reviews*

  — SQMS No. 2 addresses the appointment and eligibility of the EQ reviewer and the performance of EQ reviews.

- Statement on Auditing Standards (SAS) No. 146, *Quality Management for An Engagement Conducted in Accordance With Generally Accepted Auditing Standards* [2]

  — SAS No. 146 updates and supersedes AU-C section 220 and addresses quality management at the engagement level, focusing on the quality responsibilities of the engagement team and engagement partner.

- 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*[3]

  — SSARS No. 26 amends the SSARSs to conform with SQMS Nos. 1 and 2.

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[1] The Statements on Quality Management Standards (SQMSs) will be codified as QM sections in AICPA *Professional Standards*.
[2] Statements on Auditing Standards (SASs) are codified as AU-C sections in AICPA *Professional Standards*.
[3] Statements on Standards for Accounting and Review Services (SSARSs) are codified in the AR-C sections in AICPA *Professional Standards*.

Who's affected?

Every firm that performs engagements in accordance with the SASs, SSARSs and SSAEs.

What are the key changes?

- New **risk-based approach,** incorporating a risk assessment process driving firms to focus on **quality management tailored to their circumstances**

- **Revised components** of the system of quality management — two new components, including information and communication

- **More robust** leadership and governance requirements

- **Enhanced** monitoring and remediation processes

- **New** requirements for networks and service providers

The components of the system of quality management

The system of quality management (SQM) comprises eight interrelated components as follows:

The firm's risk assessment process	A process established by the firm as part of the SQM	• The process the firm is required to follow in implementing the risk-based approach to quality management • Consists of establishing quality objectives, identifying and assessing quality risks to the achievement of the quality objectives, and designing and implementing responses to address the assessed quality risks
Governance and leadership	Establishes the environment in which the SQM operates	• Deals with matters such as the firm's culture, leadership responsibility and accountability, the firm's organizational structure, assignment of roles and responsibilities, and resource planning and allocation
Relevant ethical requirements	Specific topic fundamental for engagement performance	• Deals with fulfilling relevant ethical requirements by the firm and its personnel • Also deals with relevant ethical requirements to the extent that they apply to others external to the firm
Acceptance and continuance of client relationships and specific engagements	Specific topic fundamental for engagement performance	• Deals with the firm's judgments about whether to accept or continue a client relationship or specific engagement

Engagement performance	**Specific topic fundamental for engagement performance**	• Deals with the firm's actions to promote and support the consistent performance of quality engagements, including through direction, supervision and review, consultation and communication, and resolution of differences of opinion • Includes how the firm supports engagement teams in exercising professional judgment and, when applicable to the nature and circumstances of the engagement, exercising professional skepticism
Resources	**Enables operation of other components**	• Deals with obtaining, developing, using, maintaining, allocating and assigning resources in a timely manner to enable the design, implementation and operation of the SQM • Includes requirements related to technological, intellectual and human resources within the firm as well as those from service providers
Information and communication	**Enables operation of other components**	• Deals with obtaining, generating or using information regarding the SQM, and communicating information within the firm and to external parties, on a timely basis to enable the design, implementation and operation of the SQM
Monitoring and remediation process	**A process established by the firm as part of the SQM**	• The process that — provides the firm with relevant, reliable and timely information about the design, implementation and operation of the SQM and — addresses taking appropriate actions to respond to deficiencies such that deficiencies are remediated on a timely basis

Notable differences and enhancements: Detailed comparison of the elements of quality control under QC section 10 with the components of quality management under SQMS No. 1 (see next page)

| QC sec. 10 — Elements of quality control	NEW SQMS No. 1 — Components of quality management	Notable differences and enhancements

No equivalent element in QC sec. 10	The firm's risk assessment process *(new!)*	• New component requiring firms to establish a risk assessment process that supports the SQM
		• Firms should establish quality objectives, identify and assess quality risks and design and implement responses to those risks
		• Firms should establish specified quality objectives for:
		  — Governance and leadership
		  — Relevant ethical requirements
		  — Acceptance and continuance of client relationships and specific engagements
		  — Engagement performance
		  — Resources
		  — Information and communication
		• Firms should establish policies or procedures to identify information that indicates additional quality objectives and additional or modified quality risks or responses are needed due to the firm's circumstances

Leadership responsibilities for quality within the firm	Governance and leadership	• New focus on the role a firm's governance and leadership play in establishing an environment and culture that support the SQM
		• Firms should establish a culture that reinforces
		  — serving the public interest;
		  — the importance of professional ethics, values and attitudes;
		  — the responsibility of all personnel for quality; and
		  — the importance of quality in strategic decisions and actions
		• New requirements that a firm's
		  — leadership is not only responsible and accountable for quality, but also expected to demonstrate a commitment to quality through its actions and behaviors
		  — organizational structure enables its SQM
		  — resources should be deployed in a manner that supports the firm's commitment to quality

Relevant ethical requirements	Relevant ethical requirements	• New emphasis on responsibilities for all relevant ethical requirements, including independence • New requirement that a firm ensures that others (e.g., network firms, individuals in the network, and service providers) who are involved in the firm's SQM or in performing engagements understand and fulfill relevant ethical requirements to which the firm and the firm's engagements are subject

QC sec. 10 — Elements of quality control	NEW SQMS No. 1 — Components of quality management	Notable differences and enhancements
		• Less prescription than in extant standard
Acceptance and continuance of client relationships and specific engagements	Acceptance and continuance of client relationships and specific engagements	• New requirement that emphasizes a firm's ability to perform an engagement in accordance with professional standards • Expanded emphasis on obtaining information about the nature and circumstances of an engagement along with the integrity and ethical values of the client • New requirement to ensure that financial and operational priorities do not inappropriately influence acceptance and continuance judgments
Engagement performance	Engagement performance	• New requirement that engagement teams understand and fulfill their professional responsibilities, including an engagement partner's overall responsibility for managing and achieving quality and being sufficiently and appropriately involved throughout an engagement • Revised requirement related to the direction and supervision of engagement teams and the review of work based on an engagement's nature and circumstances and the resources assigned or made available to the engagement team • New requirement related to the exercise of professional judgment and professional skepticism, when appropriate, by engagement teams • Various requirements related to engagement quality reviews (formerly engagement quality control reviews) have been relocated within SQMS No. 1 or moved to SQMS No. 2
QC sec. 10 — Elements of quality control	NEW SQMS No. 1 — Components of quality management	Notable differences and enhancements
Human resources	Resources	• New requirements related to technological and intellectual resources involved in a firm's SQM and the performance of engagements • New requirement that firms hire, develop and retain personnel with the competence and capabilities to perform activities or carry out responsibilities within the SQM • New requirement that personnel demonstrate commitment to quality, be competent to perform their roles and be held accountable through

QC sec. 10 — Elements of quality control	NEW SQMS No. 1 — Components of quality management	Notable differences and enhancements
		evaluations, compensation, promotion and other incentives • New requirement that firms obtain individuals from external sources (e.g., a network firm, another network, or a service provider) when the firm does not have sufficient or appropriate personnel to operate the SQM or perform engagements

No equivalent element in QC sec. 10	Information and communication *(New!)*	• New component requiring firms to establish information and communication processes that support the SQM
		• New requirement that the firm's information system incorporate reliable information from internal and external sources needed to support the SQM
		• New requirement that the firm's culture reinforce the responsibility of personnel for the sharing of information with one another and the firm
		• New requirement that information be exchanged throughout the firm so
		  — personnel and engagement teams can understand and perform activities related to the SQM and engagement
		  — personnel and engagement teams communicate information to the firm related to the SQM
		• New requirement that information be communicated by the firm
		  — to or within the firm's network or service providers to enable them to fulfill their responsibilities
		  — to external parties as required by law, regulation or professional standards for those parties to understand the SQM

Monitoring	The monitoring and remediation process	• Expanded and enhanced guidance throughout this component • New emphasis on the firm's remediation process • New requirement that firms establish policies or procedures that address the objectivity of those performing monitoring activities • Introduction of the term "findings" in relation to information about the SQM that indicates a deficiency may exist • New requirements that the firm evaluate the severity and pervasiveness of identified deficiencies using a root cause analysis and design remedial actions that are responsive to the root cause analysis

Effective date

Systems of quality management in compliance with SQMS No. 1 are required to be designed and implemented by Dec. 15, 2025. Evaluation of the system of quality management required by SQMS No. 1 is required to be performed within one year following Dec. 15, 2025.
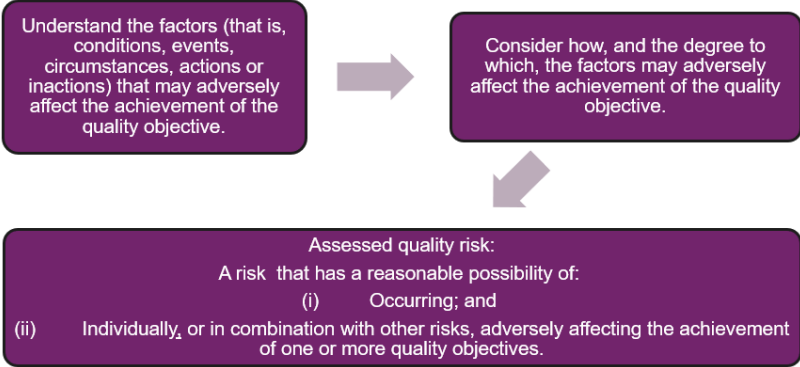
Understanding effective dates
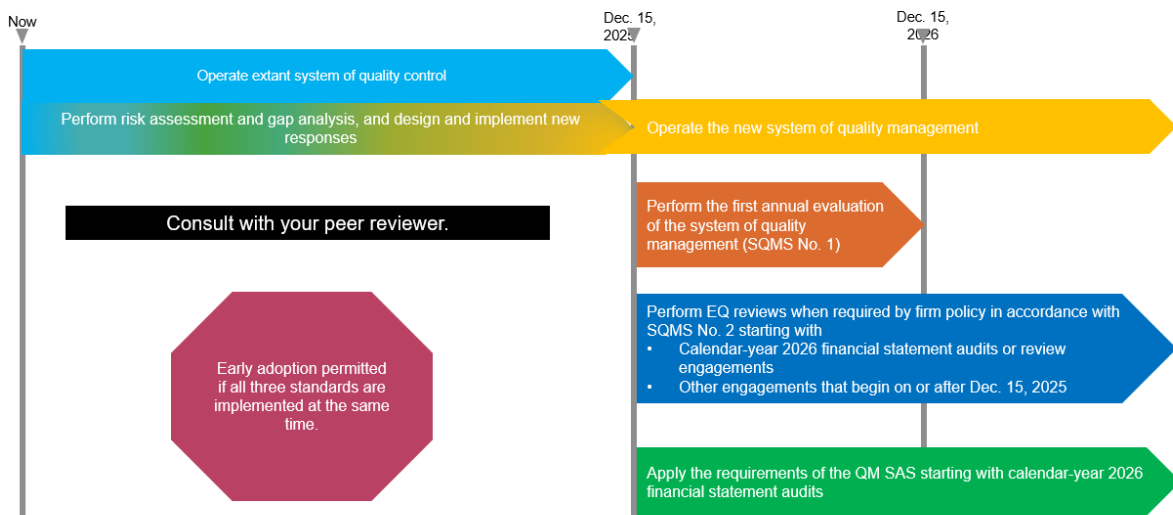
- December 2025 may seem really far off, but there's a reason the implementation period is so long — to allow you enough time to get the new system in place. It may be a big change, but done bit by bit over the next three years, it's manageable.

- The firm may start operation of all the new and revised policies or procedures at the effective date, or the firm may pilot test one or more of the components of the new SQM prior to the effective date. The pilot test may be conducted by the entire firm or by a selection of engagements teams. The SQM would not be considered "in operation" until the firm has formally implemented and commenced operation of the new SQM in its entirety. This means that you can start to make changes — for example, implementing the new risk assessment process — and ask your peer reviewer to give you feedback on those changes. But you wouldn't get a matter for further consideration regarding those changes because your peer reviewer won't be measuring your system against the new standards until the firm formally implements them (which has to be no later than Dec. 15, 2025).

Resources
The standards and resources to help you implement the standards can be found [here](#).

What should I be doing now?

| 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 — Comparison of extant AICPA quality control standards and new AICPA quality management standards — AICPA webcasts — AICPA practice aids — CPE courses

2. Develop a plan for implementation	• 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 SQM to the firm's managing partner and assign operational responsibility for the SQM, and operational responsibility for specific aspects of the SQM, to appropriate individuals within the firm.
	• Determine the resources — human, intellectual and technical — needed for successful implementation.
	• Talk with your peer reviewer about your implementation plan. Note that your peer reviewer, to maintain independence, cannot be part of your SQM — just like you can't be part of your client's system of internal control over financial reporting (ICFR) — but may offer advice.
	• Determine how information will be documented.
	• Develop a timeline.
	— Your firm may take a phased approach to implementation, building up to the effective date. For example, you may start by designing and implementing policies or procedures for one component at a time and begin operating those policies or procedures at various stages before the effective date.
	    o This phased approach may lessen the impact of many changes all at once.
	    o Although your firm may implement policies or procedures before the effective date, the firm would not be considered to be "early adopting" SQMS No. 1 because only a portion of the new SQM has been implemented.
	    o The appendix to this document includes an example timeline, reflecting a phased approach to performing the risk assessment, gap analysis, and designing/implementing responses for each component, and then at the end reevaluating the risk assessment, gap analysis, and the responses.

3. Perform risk assessment	• Establish the quality objectives required by the standard.
	   — You may find it helpful to break the quality objectives into sub-objectives.
	   — The quality objectives are sufficiently comprehensive that it is unlikely that you would find it necessary to establish additional quality objectives.
	
	• Identify and assess quality risks. The following graphic explains how to identify quality risks:
	
	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.
	
	• The assessment of identified quality risks does not require formal ratings or scores.
	• Risk assessment is iterative, and as such, quality risks will be revisited throughout the process of implementation and maintenance of the SQM.
	• The AICPA is exploring technology solutions to help you implement and manage your SQM, including tools to help identify and document quality risks and related responses.
	• You may find it helpful to identify and assess quality risks one component at a time and then revisit the components throughout the process.
	• Consider any information the firm may have related to current quality risks (e.g., information provided to insurance carriers).
	• Consider the inverse of the quality objectives as quality risks (that is, the risk of not achieving the quality objective).

4. Perform a gap analysis	• Based on the quality risks identified, map current controls — or, as SQMS No. 1 calls them, "responses to quality risks." 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.
5. Design and implement new responses for those risks that are not addressed	• Helpful resources for identifying potential responses to quality risks include AICPA practice aids, third-party providers of quality management materials, and peer reviewers, among others. • You may decide that current responses that do not map to a risk are no longer necessary.

6. Prepare documentation	• 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. • Documentation of the SQM will likely differ depending on the firm's complexity. 　— A less complex firm may not need to have granular documentation, such as a matrix, that indicates the quality objective, the related quality risk(s) and the related responses to address those quality risks. This is because it may be obvious how the quality risks relate to the quality objectives or how the responses address the quality risks. In these circumstances, the firm's 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. This may become important when the volume of quality risks and related responses creates challenges in being able to identify which quality risks relate to which quality objectives, and which responses address which quality risks.
7. Establish process for ongoing monitoring (adjusting for changes) and remediation	• The monitoring and remediation process can be broken down into four aspects: 　Design and Perform Monitoring Activities → Evaluate Findings and Identify Deficiencies, and Evaluate Identified Deficiencies → Respond to Identified Deficiencies → Communicate • Factors you are required to take into consideration when establishing monitoring activities are: 　— 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 • The "information and communication" component plays an enabling role by providing ongoing information relevant to the SQM.
8. Evaluate new system	Tips: • A new requirement in SQMS No. 1 is for a firm leader 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 Dec. 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 ICFR, which remains management's responsibility regardless of whether an audit of an entity's system of ICFR is performed.

Appendix: Example timelines of implementation

Timeline example 1:

This example shows a phased approach to implementing the QM standards by considering one component at a time, and then at the end, reconsidering the risk assessment, gap analysis and responses to quality risks.
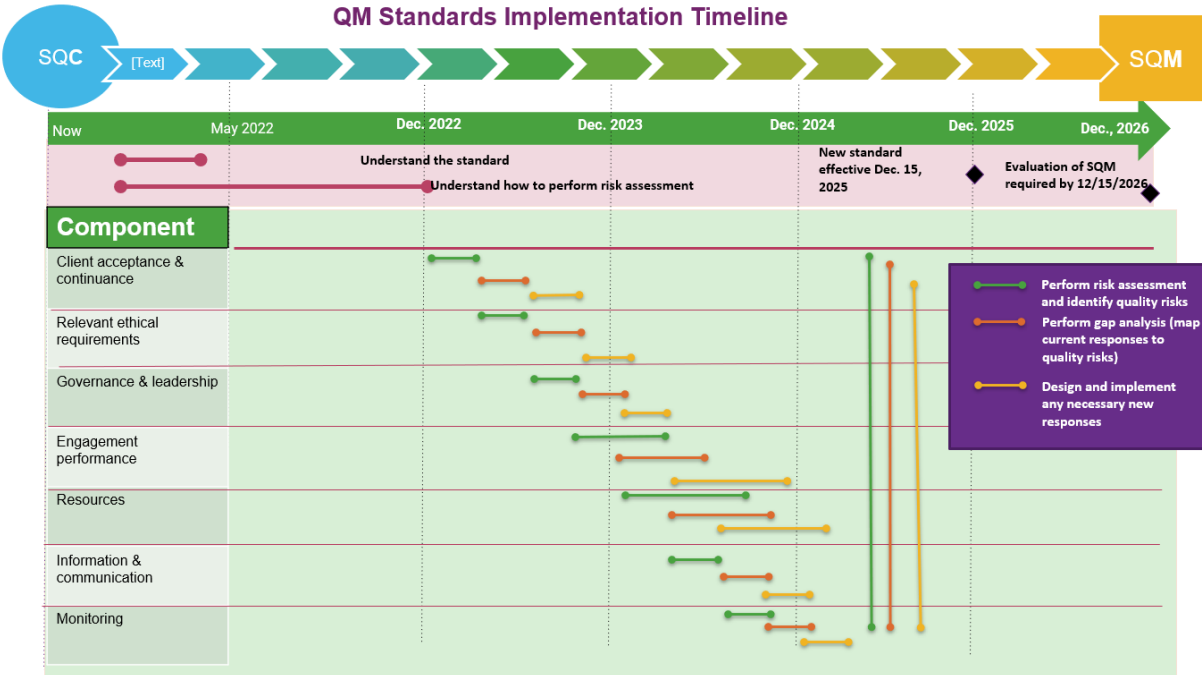
Timeline example 2:

This timeline demonstrates that the timing of a firm's peer review does not change the implementation timeline. By beginning in 2022, you allow sufficient time for implementation prior to the effective date of the standards.

Example firm scenarios:	2022	2023	2024	2025	2026
Firm A — Peer review during 2022 and 2025 **Firm B — Peer review during 2023 and 2026** **Firm C — Peer review during 2024 and 2027** **Firm D — Peer review during 2025 and 2028**	• Understand the standards • Develop a plan for implementation • Consider quality objectives and if you need to create others	• Perform risk assessment, one component at a time • Perform gap analysis, one component at a time • As each component is completed, revisit prior components • Design and implement new responses for those risks that are not addressed • At various points in the process, provide an update to your peer reviewer	• Continue risk assessment, gap analysis and design and implementation of new responses until all components have been addressed • Review risk assessment and gap analysis at the overall system level and consider if any additional responses are needed	• Document the SQM • Determine the process for ongoing monitoring (adjusting for changes) and remediation • Understand how to perform root cause analysis • Pre-effective date — implement new processes (on a test basis), and evaluate and adjust as necessary • Fully implement SQMS No. 1 by Dec. 15, 2025 • At various points in the process, provide an update to your peer reviewer	• Operate SQM in accordance with SQMS No. 1 • Evaluate SQM by Dec. 15, 2026

Tips:

- No matter when a firm's peer review occurs, don't delay starting the implementation of the QM standards! December 2025 may seem a long way off, but starting now will provide sufficient time for a smooth and successful transition of your quality control system to your quality management system. Delaying your implementation efforts is not advisable.
- Peer review is performed based on standards in effect or adopted early by the firm. For system reviews before Dec. 15, 2025, the peer review would be based on QC section 10 (unless the firm has fully adopted SQMS No. 1). A phased approach to implementation does not mean SQMS No. 1 has been fully adopted — rather, it is only after all phases are complete that a firm would determine that SQMS No. 1 has been fully adopted.
- You may find it helpful to consult with your peer reviewer at various points in the process: when you develop your implementation plan, after your first "round" of risk assessment and gap analysis, when you begin to design and implement responses, and in deciding the nature and extent of documentation of your SQM. Remember that your peer reviewer, to maintain independence, cannot be part of your SQM — just like you can't be part of your client's system of ICFR — but can advise you.