

THE PPC ACCOUNTING AND AUDITING UPDATE

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Have Engagements Performed under International Standards? New QM Standards Require Attention!



In our July 2022 newsletter we provided an overview of four new quality management (QM) standards that were recently issued by the AICPA. However, for firms that have engagements performed under international standards, the International Auditing Assurance Standards Board (IAASB) has also issued new and revised QM standards that have an effective date of December 15, 2022, which is three years earlier than the comparable U.S. standards.

The new and revised standards issued by the IAASB are—

- International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*
- ISQM 2, *Engagement Quality Reviews*
- ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

ISQM 1

ISQM 1 replaces the extant guidance in International Standard on Quality Control (ISQC) 1. The standard addresses firms' systems of quality control and consists of eight components that operate in an iterative and integrated manner, including the firm's risk assessment process; governance and leadership; relevant ethical requirements; acceptance and continuance; engagement performance; resources; information and communication; and monitoring and remediation processes. These general components are the same as outlined in the AICPA's recent Statement on Quality Management Standards (SQMS) No. 1, *A Firm's System of Quality Management*.

Some of the key changes in the ISQM from the existing legacy standard, ISQC 1, include the following:

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- A risk assessment process that is more proactive and tailored, which is focused on identifying risks that may prevent the achievement of quality objectives, and actively responding to those risks.
- Enhanced requirements to address firm governance and leadership.
- Requirements to address specific elements of the firm's environment that could introduce risks that may prevent the achievement of quality objectives, including technology, networks, and the use of external service providers.
- New requirements related to information and communication, including communication with external parties.
- Enhanced requirements for monitoring and remediation to promote more proactive monitoring of the system of quality management as a whole and effective and timely remediation of deficiencies.

Firms are required to have a system of quality management compliant with ISQM 1 designed and implemented by December 15, 2022, with a subsequent evaluation required within one year following December 15, 2022.

ISQM 2

ISQM is a new quality management standard that addresses the appointment and eligibility of an engagement quality reviewer and the engagement quality reviewer's responsibilities relating to the performance and documentation of an engagement quality review. The requirements of ISQM 2 replace the extant requirements for engagement quality reviews currently residing in ISQC 1 and extant ISA 220, *Quality Control for an Audit of Financial Statements*.

ISQM 2 is required to be implemented for audits of financial statements for periods beginning on or after December 15, 2022.

ISA 220 (Revised)

This standard replaces the extant guidance in ISA 220. Among other things, the standard clarifies the audit engagement partner's roles and responsibilities, including the responsibility for overall engagement quality, and makes connections with the ISQMs clearer.

ISA 220 (Revised) is effective for audits of financial

statements for periods beginning on or after December 15, 2022.

Potential Implications for U.S. Firms that Have Engagements Performed Under International Standards

We believe that firms that have not implemented the requirements of the ISQMs (or a set of quality management standards at least as demanding) as of the effective dates should not issue auditor's reports asserting that their audit was conducted in accordance with International Standards on Auditing.

We also believe that current U.S. quality control standards would not be considered "at least as demanding" as indicated by the fact, as discussed in our July 2022 newsletter, that the AICPA also recently issued their set of Statements of Quality Management Standards (SQMS), which are largely derived from the ISQMs. AICPA SQMS 1 requires that systems of quality management to be designed and implemented by December 15, 2025, with an evaluation completed within one year following December 15, 2025.

SQMS 2, *Engagement Quality Reviews*, 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.

Given the substantial effort required to implement the new quality management standards, in particular ISQM 1, and further given that the AICPA's equivalent SQMSs for U.S. firms were only issued in June 2022, and aren't effective until 2025, some U.S.-based firms may not have implemented ISQM 1 and ISQM 2 (or quality management requirements that are at least as demanding) by December 15, 2022.

As such, firms that follow international standards may need to assess the best course of action on an engagement-by-engagement basis. Auditors ought to work with their clients to determine whether a U.S. GAAS auditor's report would meet the client's needs. For International Standards on Auditing (ISA), audits of components that report to an ISQM-compliant group auditor, the U.S.-based firm ought to have discussions with the group auditor about their involvement as soon as possible.

The PPC Technology Update

Back on the Road: Get Set, Go!

The summer consulting season is in full swing, and many accountants are beginning to travel to client sites again. After more than two years of COVID isolation, many are a little rusty on the proper technology to pack for such trips. So, this month we discuss the technology tools that every work travel warrior should keep ready to “grab and go”! Your grab-and-go bag should include the following items.

Mobile Office Backpack

Having a laptop bag that is fully loaded and ready to go can relieve a lot of last-minute stress and avoid travel disasters that occur because you forgot to pack something. Today’s laptop bags have a luggage strap that can easily slide onto the handle of carry-on “spinner” suitcases for easy rolling through the airport, rather than always having to lug it on your back. Newer models also have options to plug in a portable battery inside the backpack with external cords to easily recharge your mobile device.

Mobile Workstation

Having a laptop as your only workstation promotes more efficient utilization as the user develops familiarity with the device and the firm can better enforce security, VPNs, antivirus/malware, and system updates on workstations under their control. The latest CPAFMA IT Survey found that while 63% of firms are buying 15.6 inch models with a full keyboard (including the number pad), there was a 9% increase in the number of firms buying larger 17 inch models in the last two years (now at 30%). We believe this is due to tax and administrative personnel converting to laptops during COVID and the significantly lower cost of larger units. Purchases of smaller, ultraportable devices increased to 7%, likely for heavy advisory use. Dell laptops were by far the top brand selected at 67%, followed by HP and Lenovo, and we recommend firms buy the business models.

Laptop Sleeve

Travel can be tough on equipment, so we recommend accountants use a protective sleeve for their laptop even if their backpack has a padded bottom. Neoprene



sleeves are under \$25 and add an extra layer of protection against accidental drops or jolts to the bag.

Personal Entertainment Device

With today’s travel unpredictability, there can be a lot of unexpected downtime, so bringing a tablet for personnel entertainment (and as a backup device for your laptop) is recommended. Some prefer the convenience of using their smartphone for this purpose, but the small screen and reality that your phone will most likely run out of battery has us recommending a tablet. Apple iPads continue to be the most utilized at 54%, but Android devices such as the Samsung Galaxy Tab, Lenovo Tab, and Amazon Fire now account for 46% of purchases and provide significant cost savings.

Connection Dongles and Cords

Your grab-and-go bag should contain duplicate power supplies and cords for ALL devices you carry on the road as these are the most forgotten items (along with spare ear buds). This includes USB-C audio adapters for phone headsets, HDMI/VGA/Ethernet/USB-3 dongles for connecting to external projectors and displays, and additional recharging cables for other mobile devices such as tablets, smart watches, screen pointers, etc.

Cord Bag

Having a quart-size zippered bag to organize and store all your cords will make it easier to access them as opposed to fishing through your bag. When searching

for a laptop sleeve to purchase, you will find that many providers also carry the matching cord bag.

Power/Docking Brick

Buy a second power cord or a docking station with power feature to keep in your bag that can supply power to the laptop as well as charge other devices. These are among the most forgotten items when packing in a rush, so just buy the spare and always have it in your cord bag.

Power Bank

Most of us rely on our smartphone not only for communications but also for our travel applications, including boarding passes, mobile hotel keys, and hailing an Uber or Lyft. That “low-battery” warning can invoke a lot of stress! Carrying a power bank alleviates that problem, and today’s 10,000mAh batteries that can fit in the palm of your hand cost under \$40.

Privacy Screen

Accountants often have confidential data on their screen which they have a fiduciary duty to protect. This can be a problem if they are jammed into the middle seat during a commute and trying to work on the laptop. It is recommended to always use a screen privacy filter when in public, which reduces the information on your laptop that people sitting next to you can see.

Mobile Surge Bar

Looking for a place to charge multiple devices when traveling can be a frustrating experience, especially when there is often only one plug available. Belkin has a three-outlet travel charger with built in surge protection and two USB outlets for under \$30.

Noise Cancelling Headset

While many people prefer the in-ear audio buds (i.e., Apple EarPods or Beats Fit Pro) for watching movies or making phone calls, carrying the much larger over-the-ear Bose Quiet Comfort headset not only blocks out more ambient noise, but also makes it easier to avoid spontaneous or unwanted conversations.

Portable Monitor

Having a second monitor always improves productivity when you have the space to set it up. ASUS makes the ZenScreen (USB-C) and MB169B+ (USB-3.0), which are the two monitors we see firms select most often.

Other Essentials

A surprising number of hotel rooms don’t have alarm clocks. So, a travel alarm clock is recommended as a backup to your smartphone or wake-up call. As an added benefit, an alarm clock can also be utilized during meetings to keep you on schedule.

In addition, it’s advisable to carry a personal “Med Kit” with a few days’ supply of prescription medications; Band-Aids; earplugs; tissues; and standard over-the-counter cold, flu, cough, stomach, and headache medicines to hold you over until you can get to a pharmacy.

Carrying a refillable water bottle and dry snacks are other standard items for your travel bag as service is often halted during bad weather or when you are stuck with an unexpected layover and find all the restaurants are closed.

Conclusion

When traveling during these increasingly unpredictable times it has never been more important to be prepared for the worst. Having everything ready to go in your computer bag will ensure you hit the ground running with everything you need to work.

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Practical Consideration:

You can find ISQM 1 and ISQM 2 at www.iaasb.org/publications/international-standard-quality-management-isqm-1-quality-management-firms-perform-audits-or-reviews and www.iaasb.org/publications/international-standard-quality-management-isqm-2-enhancing-quality-reviews. The International Federation of Accountants (IFAC) has made resources available for firms implementing ISQM 1 and ISQM 2. First-time implementation guides for each standard are available at www.iaasb.org/publications/isqm-1-first-time-implementation-guide and www.iaasb.org/publications/isqm-2-first-time-implementation-guide.

Thus, AR-C sections *without* an alpha suffix now include all SSARS through SSARS 26. AR-C sections with the "A" suffix include the SSARS through SSARS 25, *Materiality in a Review of Financial Statements and Adverse Conclusions*. Lastly, those sections in the codification that have the "B" suffix reflect SSARS guidance prior to the issuance of SSARS 25.

Practical Consideration:

You can find a listing of monthly updates to AICPA Professional Literature at <https://us.aicpa.org/search.html?source=AICPA&q=Update+of+the+AICPA+Professional+Literature>. The update reflects various updates such as new AICPA Guides, new and changed professional standards, technical questions and answers, and more.

Changes to AR-C References

As we indicated in the July 2022 issue of this newsletter, one of the new quality management standards recently issued was SSARS 26, *Quality Management for an Engagement Conducted in Accordance with Statements on Standards for Accounting and Review Services*. That statement is effective for engagements performed under the SSARS for periods ending on or after December 15, 2025.

SSARS 26 amends the following sections in the Codification:

- AR-C section 60, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services*
- AR-C section 70, *Preparation of Financial Statements*
- AR-C section 80, *Compilation Engagements*
- AR-C section 90, *Review of Financial Statements*

Given the long effective date of SSARS 26 (periods ending on or after December 15, 2025), the AICPA announced in its June 2022 Update of the AICPA Professional Literature that AR-C codification section referencing has been updated to reflect the standards with differing effective dates.

Is Your Firm in Compliance with the Safeguards Rule?

The Federal Trade Commission (FTC) recently amended the Safeguards Rule, originally effective in 2003, which addresses requirements for "financial institutions" pertaining to the safeguarding and confidentiality of customer information. This Rule resulted from enactment of the Gramm-Leach-Bliley Act (GLBA) in 1999.

While the Rule is directed towards "financial institutions," that term applies to a broad variety of non-banking entities, including CPA firms. The Rule specifies that financial institutions include those that are "significantly engaged" in financial activities and provides the example of an accountant or other tax preparation service as being a "financial institution."

Among other things, the Safeguards Rule, requires financial institutions to develop and implement a written comprehensive information security program to ensure the security and confidentiality of nonpublic personal customer information. The Rule further sets forth required elements of the information security program. For example, among other things, the Rule requires a qualified individual to oversee and implement the program; a written risk assessment regarding

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customer information; the design and implementation of safeguards addressing identified risks; testing and monitoring of safeguards; and a written incident response plan.

Violations under GLBA can be steep: fines of up to \$100,000 per violation, with directors and officers being personally liable for up to \$10,000 per violation. In addition, criminal charges can also occur under GLBA.

Practical Consideration:

You can find the FTC's Final Rule on the recent amendments of the Safeguards Rule at www.federalregister.gov/documents/2021/12/09/2021-25736/standards-for-safeguarding-customer-information.



New NOCLAR Standards

The AICPA's Auditing Standards Board recently gave the nod to another new auditing standard that impacts an auditor's responsibilities regarding an entity's potential fraud and noncompliance with laws and regulations (NOCLAR). The new standard, SAS 147, *Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance with Laws and Regulations*, amends AU-C 210, *Terms of Engagement*.

What's New?

The standard makes several narrow revisions to auditing standards regarding the auditor's inquiries of a predecessor auditor when deciding to accept an audit engagement. These include the following:

- Once management authorizes the predecessor auditor to respond, the auditor is required to inquire about identified or suspected fraud and NOCLAR matters.
- Predecessor auditors have a responsibility to respond on a timely basis. If the predecessor decides not to fully respond due to matters such as potential litigation or unusual circumstances, the predecessor should clearly indicate that the response is limited.
- When an auditor accepts the engagement, documentation of the inquiries of the predecessor, along with their results, is required.

Effective Date

The new standard is effective for audits of financial statements for periods beginning on or after June 30, 2023.

Related PEEC Activities

In connection with the new auditing standard, the AICPA's Professional Ethics Executive Committee (PEEC) has adopted interpretations of the AICPA Code of Professional Conduct, ET 1.180.010 and ET 2.180.010, *Responding to Noncompliance With Laws and Regulations*. These interpretations are effective June 30, 2023.

