

Date: 9/7/22

Virtual Meeting

NAIC/AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (E) WORKING GROUP

September 15, 2022

11:00 a.m. – 12:00 p.m. ET / 10:00 – 11:00 a.m. CT / 9:00 – 10:00 a.m. MT / 8:00 – 9:00 a.m. PT

ROLL CALL

Doug Stolte, Chair	Virginia	Doug Bartlett	New Hampshire
Laura Clements	California	Dale Bruggeman	Ohio
Rylynn Brown	Delaware	Ryan Keeling	Oregon
Daniel Mathis	Iowa	Melissa Greiner	Pennsylvania
Judy Weaver	Michigan	Johanna Nickelson	South Dakota
Shannon Schmoeger	Missouri	Jake Garn	Utah
Lindsay Crawford	Nebraska		

NAIC Support Staff: Bruce Jenson

AGENDA

1. Annual Review of Model Audit Rule Premium Threshold—*Doug Stolte (VA)* Attachment A
2. Discuss Referral from Chief Financial Regulator Forum on Contractor Access to CPA Workpapers—*Doug Stolte (VA)* Attachment B
3. Discuss Audit Awareness Letter Expectations—*Doug Stolte (VA)* Attachment C
4. Hear Update on Recent Auditing Pronouncements—*Dave Osborn (Ernst & Young)* Attachment D
5. Any Other Matters—*Doug Stolte (VA)*
6. Adjournment

[https://naiconline.sharepoint.com/teams/FRSSolvencyMonitoring/NAICAICPA WG/2022 Call/NAIC-AICPA Agenda 2022.docx](https://naiconline.sharepoint.com/teams/FRSSolvencyMonitoring/NAICAICPA%20WG/2022%20Call/NAIC-AICPA%20Agenda%202022.docx)

2021 Annual - Property, Life, Health, Fraternal, & Title

	# of Co.	Direct Premium (\$ Millions)	# of Co.	Gross Premium (\$ Millions)
Companies in Public Groups	1,646	\$ 1,366,115	1,646	\$ 1,883,133
Non-Public Co. with >\$500 Million DWP/GWP	409	966,466	476	1,377,694
Total	2,055	\$ 2,332,580	2,122	\$3,260,828
Total All Insurers	4,589	\$2,561,635	4,589	\$3,450,509
% of Total All Insurers	44.8%	91.1%	46.2%	94.5%

2020 Annual - Property, Life, Health, Fraternal, & Title

	# of Co.	Direct Premium (\$ Millions)	# of Co.	Gross Premium (\$ Millions)
Companies in Public Groups	1,562	\$1,238,349	1,562	\$1,668,202
Non-Public Co. with >\$500 Million DWP/GWP	383	\$947,804	460	\$1,277,809
Total	1,945	\$2,186,153	2,022	\$2,946,012
Total All Insurers	4,548	\$2,361,682	4,548	\$3,130,358
% of Total All Insurers	42.8%	92.6%	44.5%	94.1%

2019 Annual - Property, Life, Health, Fraternal, & Title

	# of Co.	Direct Premium (\$ Millions)	# of Co.	Gross Premium (\$ Millions)
Companies in Public Groups	1,439	\$1,189,470	1,439	\$1,629,522
Non-Public Co. with >\$500 Million DWP/GWP	381	\$900,007	447	\$1,203,503
Total	1,820	\$2,089,477	1,886	\$2,833,025
Total All Insurers	4,505	\$2,259,171	4,505	\$3,015,372
% of Total All Insurers	40.4%	92.5%	41.9%	94.0%

MEMORANDUM

TO: Doug Stolte, Chair of the NAIC/AICPA (E) Working Group

FROM: Judy Weaver, Facilitator of the Chief Financial Regulator Forum

DATE: April 4, 2022

RE: Access to CPA Workpapers – Firm Confidentiality Agreements

During its April 4, 2022 meeting, the Chief Financial Regulator Forum discussed the experience of states in obtaining access to CPA workpapers in situations where the department utilizes contractors to conduct a financial examination. Several states indicated that they are experiencing challenges and delays in obtaining access to the workpapers if they and their contractors don't agree to sign a separate confidentiality agreement proposed by the CPA firm. This is often the case even after the state demonstrates that it has confidentiality agreements in place with its contractors and that legislation provides for confidential treatment of audit workpapers. In many instances, the separate confidentiality agreements have been pursued by medium-sized CPA firms that raise concerns regarding the potential for contractors to compete with them for future audit work.

As timely access to CPA workpapers is essential to ensuring an effective and efficient examination process, this issue is being referred to the NAIC/AICPA (E) Working Group for its consideration and discussion with CPA firm representatives. If there are any questions regarding the referral, please contact either me or NAIC staff (Bruce Jensen at bjensen@naic.org) for clarification. Thank you for your consideration of this important issue.

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STATE AUDIT REQUIREMENTS

CALIFORNIA	10 CA ADC §§ 2309.2 to 2309.20	FILING DEADLINES
Audit Report	Same as NAIC Model Audit Rule.	June 1. The commissioner may require an insurer to file an Audited financial report earlier than June 1 with 90 days advanced notice.
Designation of Auditor	Same as NAIC Model Audit Rule.	Within 60 days after becoming subject to regulation.
Qualification Letter	Same as NAIC Model Audit Rule.	June 1.
Awareness Letter	Same as NAIC Model Audit Rule.	Department policy to require current letter.
Communication of Internal Control Related Matters Noted in an Audit	Same as NAIC Model Audit Rule.	Prepared by the accountant and filed within 60 days after filing of audited financial statements; if no unremediated material weaknesses are noted, the communication should still be filed and so state. If unremediated material weaknesses are noted, the insurer is also required to provide a description of remedial actions to be taken with the filing.
Adverse Condition	Same as NAIC Model Audit Rule.	CPA must notify insurer within five business days; insurer shall notify Commissioner within five business days of notification.
Change in Auditor	Same as NAIC Model Audit Rule.	Insurer must notify Commissioner within five business days of dismissal or resignation of auditor.
Application for Relief from Partner Rotation Requirements	Same as NAIC Model Audit Rule.	The application for relief from partner rotation requirements must be made at least 30 days before the end of the calendar year. If approval is granted, the insurer shall file with its annual statement filing the approval for relief with the states that it is licensed or doing business in and the NAIC.
Approval of Relief from Cooling-Off Requirements	Same as NAIC Model Audit Rule.	The insurer shall file with its annual statement filing the approval for relief with all states it is licensed or doing business in and the NAIC.
Audit Committee Election	Same as NAIC Model Audit Rule.	Notification of the election shall be made prior to the issuance of the statutory audit report and the election shall remain in effect until rescinded.
Management's Report of Internal Controls over Financial Reporting	Same as NAIC Model Audit Rule.	Report shall be as of the December 31 immediately preceding and filed with the commissioner along with the Communication of Internal Control Related Matters Noted in an Audit.

STATE AUDIT REQUIREMENTS

CONNECTICUT	CT ADC § 38a.54	FILING DEADLINES
Audit Report	Same as NAIC Model Audit Rule.	June 1. The commissioner may require an insurer to file an Audited financial report earlier than June 1 with 90 days advanced notice.
Designation of Auditor	Same as NAIC Model Audit Rule.	Within 60 days after becoming subject to regulation.
Qualification Letter	Same as NAIC Model Audit Rule.	June 1.
Awareness Letter	Same as NAIC Model Audit Rule.	Department policy to require current letter.
Communication of Internal Control Related Matters Noted in an Audit	Same as NAIC Model Audit Rule.	Prepared by the accountant and filed within 60 days after filing of audited financial statements; if no unremediated material weaknesses are noted, the communication should still be filed and so state. If unremediated material weaknesses are noted, the insurer is also required to provide a description of remedial actions to be taken with the filing.
Adverse Condition	Same as NAIC Model Audit Rule.	CPA must notify insurer within five business days; insurer shall notify Commissioner within five business days of notification.
Change in Auditor	Same as NAIC Model Audit Rule.	Insurer must notify Commissioner within five business days of dismissal or resignation of auditor.
Application for Relief from Partner Rotation Requirements	Same as NAIC Model Audit Rule.	The application for relief from partner rotation requirements must be made at least 30 days before the end of the calendar year. If approval is granted, the insurer shall file with its annual statement filing the approval for relief with the states that it is licensed or doing business in and the NAIC.
Approval of Relief from Cooling-Off Requirements	Same as NAIC Model Audit Rule.	The insurer shall file with its annual statement filing the approval for relief with all states it is licensed or doing business in and the NAIC.
Audit Committee Election	Same as NAIC Model Audit Rule.	Notification of the election shall be made prior to the issuance of the statutory audit report and the election shall remain in effect until rescinded.
Management's Report of Internal Controls over Financial Reporting	Same as NAIC Model Audit Rule.	Report shall be as of the December 31 immediately preceding and filed with the commissioner along with the Communication of Internal Control Related Matters Noted in an Audit.

STATE AUDIT REQUIREMENTS

DISTRICT OF COLUMBIA	DC Code §§ 31-301 to 31-314	FILING DEADLINES
Audit Report	Same as NAIC Model Audit Rule.	June 1. The commissioner may require an insurer to file an Audited financial report earlier than June 1 with 90 days advanced notice.
Designation of Auditor	Same as NAIC Model Audit Rule.	Within 60 days after becoming subject to regulation.
Qualification Letter	Same as NAIC Model Audit Rule.	June 1.
Awareness Letter	Same as NAIC Model Audit Rule.	Department policy to require current letter.
Communication of Internal Control Related Matters Noted in an Audit	Same as NAIC Model Audit Rule.	Prepared by the accountant and filed within 60 days after filing of audited financial statements; if no unremediated material weaknesses are noted, the communication should still be filed and so state. If unremediated material weaknesses are noted, the insurer is also required to provide a description of remedial actions to be taken with the filing.
Adverse Condition	Same as NAIC Model Audit Rule.	CPA must notify insurer within five business days; insurer shall notify Commissioner within five business days of notification.
Change in Auditor	Same as NAIC Model Audit Rule.	Insurer must notify Commissioner within five business days of dismissal or resignation of auditor.
Application for Relief from Partner Rotation Requirements	Same as NAIC Model Audit Rule.	The application for relief from partner rotation requirements must be made at least 30 days before the end of the calendar year. If approval is granted, the insurer shall file with its annual statement filing the approval for relief with the states that it is licensed or doing business in and the NAIC.
Approval of Relief from Cooling-Off Requirements	Same as NAIC Model Audit Rule.	The insurer shall file with its annual statement filing the approval for relief with all states it is licensed or doing business in and the NAIC.
Audit Committee Election	Same as NAIC Model Audit Rule.	Notification of the election shall be made prior to the issuance of the statutory audit report and the election shall remain in effect until rescinded.
Management's Report of Internal Controls over Financial Reporting	Same as NAIC Model Audit Rule.	Report shall be as of the December 31 immediately preceding and filed with the commissioner along with the Communication of Internal Control Related Matters Noted in an Audit.

STATE AUDIT REQUIREMENTS

FLORIDA	690-137.002	FILING DEADLINES
Audit Report	Same as NAIC Model Audit Rule.	June 1. The commissioner may require an insurer to file an Audited financial report earlier than June 1 with 90 days advanced notice.
Designation of Auditor	No provision.	Within 60 days after becoming subject to regulation.
Qualification Letter	Same as NAIC Model Audit Rule.	June 1.
Awareness Letter	Same as NAIC Model Audit Rule.	Department policy to require current letter.
Communication of Internal Control Related Matters Noted in an Audit	Same as NAIC Model Audit Rule.	Prepared by the accountant and filed within 60 days after filing of audited financial statements; if no unremediated material weaknesses are noted, the communication should still be filed and so state. If unremediated material weaknesses are noted, the insurer is also required to provide a description of remedial actions to be taken with the filing.
Adverse Condition	Same as NAIC Model Audit Rule.	CPA must notify insurer within five business days; insurer shall notify Commissioner within five business days of notification.
Change in Auditor	Same as NAIC Model Audit Rule.	Insurer must notify Commissioner within five business days of dismissal or resignation of auditor.
Application for Relief from Partner Rotation Requirements	Same as NAIC Model Audit Rule except no requirement to file with states or NAIC.	The application for relief from partner rotation requirements must be made at least 30 days before the end of the calendar year. If approval is granted, the insurer shall file with its annual statement filing the approval for relief with the states that it is licensed or doing business in and the NAIC.
Approval of Relief from Cooling-Off Requirements	None	The insurer shall file with its annual statement filing the approval for relief with all states it is licensed or doing business in and the NAIC.
Audit Committee Election	None	Notification of the election shall be made prior to the issuance of the statutory audit report and the election shall remain in effect until rescinded.
Management's Report of Internal Controls over Financial Reporting	None	Report shall be as of the December 31 immediately preceding and filed with the commissioner along with the Communication of Internal Control Related Matters Noted in an Audit.

STATE AUDIT REQUIREMENTS

NEVADA	Nev. Admin. Code §§ 680A.172 to 680A.211	FILING DEADLINES
Audit Report	Same as NAIC Model Audit Rule.	June 1. The commissioner may require an insurer to file an Audited financial report earlier than June 1 with 90 days advanced notice.
Designation of Auditor	Same as NAIC Model Audit Rule.	Within 60 days after becoming subject to regulation.
Qualification Letter	Same as NAIC Model Audit Rule.	June 1.
Awareness Letter	Same as NAIC Model Audit Rule.	Department policy to require current letter.
Communication of Internal Control Related Matters Noted in an Audit	Same as NAIC Model Audit Rule.	Prepared by the accountant and filed within 60 days after filing of audited financial statements; if no unremediated material weaknesses are noted, the communication should still be filed and so state. If unremediated material weaknesses are noted, the insurer is also required to provide a description of remedial actions to be taken with the filing.
Adverse Condition	Same as NAIC Model Audit Rule.	CPA must notify insurer within five business days; insurer shall notify Commissioner within five business days of notification.
Change in Auditor	Same as NAIC Model Audit Rule.	Insurer must notify Commissioner within five business days of dismissal or resignation of auditor.
Application for Relief from Partner Rotation Requirements	Same as NAIC Model Audit Rule.	The application for relief from partner rotation requirements must be made at least 30 days before the end of the calendar year. If approval is granted, the insurer shall file with its annual statement filing the approval for relief with the states that it is licensed or doing business in and the NAIC.
Approval of Relief from Cooling-Off Requirements	Same as NAIC Model Audit Rule.	The insurer shall file with its annual statement filing the approval for relief with all states it is licensed or doing business in and the NAIC.
Audit Committee Election	Same as NAIC Model Audit Rule.	Notification of the election shall be made prior to the issuance of the statutory audit report and the election shall remain in effect until rescinded.
Management's Report of Internal Controls over Financial Reporting	Same as NAIC Model Audit Rule.	Report shall be as of the December 31 immediately preceding and filed with the commissioner along with the Communication of Internal Control Related Matters Noted in an Audit.

STATE AUDIT REQUIREMENTS

NORTH DAKOTA	N.D. Admin. Code Chapter 45-03-20	FILING DEADLINES
Audit Report	Same as NAIC Model Audit Rule.	June 1. The commissioner may require an insurer to file an Audited financial report earlier than June 1 with 90 days advanced notice.
Designation of Auditor	Same as NAIC Model Audit Rule.	Within 60 days after becoming subject to regulation.
Qualification Letter	Same as NAIC Model Audit Rule.	June 1.
Awareness Letter	Same as NAIC Model Audit Rule.	Department policy to require current letter.
Communication of Internal Control Related Matters Noted in an Audit	Same as NAIC Model Audit Rule.	Prepared by the accountant and filed within 60 days after filing of audited financial statements; if no unremediated material weaknesses are noted, the communication should still be filed and so state. If unremediated material weaknesses are noted, the insurer is also required to provide a description of remedial actions to be taken with the filing.
Adverse Condition	Same as NAIC Model Audit Rule.	CPA must notify insurer within five business days; insurer shall notify Commissioner within five business days of notification.
Change in Auditor	Same as NAIC Model Audit Rule.	Insurer must notify Commissioner within five business days of dismissal or resignation of auditor.
Application for Relief from Partner Rotation Requirements	Same as NAIC Model Audit Rule.	The application for relief from partner rotation requirements must be made at least 30 days before the end of the calendar year. If approval is granted, the insurer shall file with its annual statement filing the approval for relief with the states that it is licensed or doing business in and the NAIC.
Approval of Relief from Cooling-Off Requirements	Same as NAIC Model Audit Rule.	The insurer shall file with its annual statement filing the approval for relief with all states it is licensed or doing business in and the NAIC.
Audit Committee Election	Same as NAIC Model Audit Rule.	Notification of the election shall be made prior to the issuance of the statutory audit report and the election shall remain in effect until rescinded.
Management's Report of Internal Controls over Financial Reporting	Same as NAIC Model Audit Rule.	Report shall be as of the December 31 immediately preceding and filed with the commissioner along with the Communication of Internal Control Related Matters Noted in an Audit.

STATE AUDIT REQUIREMENTS

NEW YORK	N.Y. COMP. CODES R. & REGS. tit. 11 §§ 89.0 to 89.16	FILING DEADLINES
Audit Report	Audited financial reports shall be filed on or before May 31; on or before April 1 for MCOs. <i>See</i> N.Y. COMP. CODES R. & REGS. tit. 11 § 89.2 for locations to submit filings.	June 1. The commissioner may require an insurer to file an Audited financial report earlier than June 1 with 90 days advanced notice.
Designation of Auditor	March 1, 2010 and updated information within 60 days of any change thereafter.	Within 60 days after becoming subject to regulation.
Qualification Letter	No provision.	June 1.
Awareness Letter	Same as NAIC Model Audit Rule.	Department policy to require current letter.
Communication of Internal Control Related Matters Noted in an Audit	Shall submit report to the superintendent as part of filing of the annual audited financial report.	Prepared by the accountant and filed within 60 days after filing of audited financial statements; if no unremediated material weaknesses are noted, the communication should still be filed and so state. If unremediated material weaknesses are noted, the insurer is also required to provide a description of remedial actions to be taken with the filing.
Adverse Condition	Shall be required to report, in writing, to the superintendent, the board of directors and the company's audit committee within 5 days.	CPA must notify insurer within five business days; insurer shall notify Commissioner within five business days of notification.
Change in Auditor	Same as NAIC Model Audit Rule.	Insurer must notify Commissioner within five business days of dismissal or resignation of auditor.
Application for Relief from Partner Rotation Requirements	Same as NAIC Model Audit Rule.	The application for relief from partner rotation requirements must be made at least 30 days before the end of the calendar year. If approval is granted, the insurer shall file with its annual statement filing the approval for relief with the states that it is licensed or doing business in and the NAIC.
Approval of Relief from Cooling-Off Requirements	Same as NAIC Model Audit Rule.	The insurer shall file with its annual statement filing the approval for relief with all states it is licensed or doing business in and the NAIC.

STATE AUDIT REQUIREMENTS

OKLAHOMA	tit. 36 §§ 311A.1-311A.20	FILING DEADLINES
Audit Report	Same as NAIC Model Audit Rule.	June 1. The commissioner may require an insurer to file an Audited financial report earlier than June 1 with 90 days advanced notice.
Designation of Auditor	Same as NAIC Model Audit Rule.	Within 60 days after becoming subject to regulation.
Qualification Letter	Same as NAIC Model Audit Rule.	June 1.
Awareness Letter	Same as NAIC Model Audit Rule.	Department policy to require current letter.
Communication of Internal Control Related Matters Noted in an Audit	Same as NAIC Model Audit Rule.	Prepared by the accountant and filed within 60 days after filing of audited financial statements; if no unremediated material weaknesses are noted, the communication should still be filed and so state. If unremediated material weaknesses are noted, the insurer is also required to provide a description of remedial actions to be taken with the filing.
Adverse Condition	Same as NAIC Model Audit Rule.	CPA must notify insurer within five business days; insurer shall notify Commissioner within five business days of notification.
Change in Auditor	Same as NAIC Model Audit Rule.	Insurer must notify Commissioner within five business days of dismissal or resignation of auditor.
Application for Relief from Partner Rotation Requirements	Same as NAIC Model Audit Rule.	The application for relief from partner rotation requirements must be made at least 30 days before the end of the calendar year. If approval is granted, the insurer shall file with its annual statement filing the approval for relief with the states that it is licensed or doing business in and the NAIC.
Approval of Relief from Cooling-Off Requirements	Same as NAIC Model Audit Rule.	The insurer shall file with its annual statement filing the approval for relief with all states it is licensed or doing business in and the NAIC.
Audit Committee Election	Same as NAIC Model Audit Rule.	Notification of the election shall be made prior to the issuance of the statutory audit report and the election shall remain in effect until rescinded.
Management's Report of Internal Controls over Financial Reporting	Same as NAIC Model Audit Rule.	Report shall be as of the December 31 immediately preceding and filed with the commissioner along with the Communication of Internal Control Related Matters Noted in an Audit.

STATE AUDIT REQUIREMENTS

TEXAS	28 Tex. Admin. Code § 7.88 (2010)	FILING DEADLINES
Audit Report	June 1 for multi-state insurers and June 30 for Texas-only writers.	June 1. The commissioner may require an insurer to file an Audited financial report earlier than June 1 with 90 days advanced notice.
Designation of Auditor	No provision	Within 60 days after becoming subject to regulation.
Qualification Letter	Same as NAIC Model Audit Rule.	June 1.
Awareness Letter	Not later than Dec. 31 (filed with Designation of Auditor letter).	Required annually pursuant to TX INS § 401.014
Communication of Internal Control Related Matters Noted in an Audit	Same as NAIC Model Audit Rule.	Prepared by the accountant and filed within 60 days after filing of audited financial statements; if no unremediated material weaknesses are noted, the communication should still be filed and so state. If unremediated material weaknesses are noted, the insurer is also required to provide a description of remedial actions to be taken with the filing.
Adverse Condition	Separately maintained at TX INS § 401.017; shall notify Commissioner within 10 days of notification.	CPA must notify insurer within five business days; insurer shall notify Commissioner within five business days of notification.
Change in Auditor	Separately maintained at TX INS § 401.015.	Insurer must notify Commissioner within five business days of dismissal or resignation of auditor.
Application for Relief from Partner Rotation Requirements	Same as NAIC Model Audit Rule	The application for relief from partner rotation requirements must be made at least 30 days before the end of the calendar year. If approval is granted, the insurer shall file with its annual statement filing the approval for relief with the states that it is licensed or doing business in and the NAIC.
Approval of Relief from Cooling-Off Requirements	Same as NAIC Model Audit Rule	The insurer shall file with its annual statement filing the approval for relief with all states it is licensed or doing business in and the NAIC.
Audit Committee Election	Same as NAIC Model Audit Rule.	Notification of the election shall be made prior to the issuance of the statutory audit report and the election shall remain in effect until rescinded.
Management's Report of Internal Controls over Financial Reporting	Same as NAIC Model Audit Rule.	Report shall be as of the December 31 immediately preceding and filed with the commissioner along with the Communication of Internal Control Related Matters Noted in an Audit.

AICPA Audit Guidance Update – September 2022

SAS No. 142 - Effective 2022

SAS No. 142, *Audit Evidence*, is effective for periods ending on or after December 15, 2022. SAS No. 142 explains what constitutes audit evidence in an audit of financial statements and sets out attributes of information that are considered by the auditor when evaluating information to be used as audit evidence. Taking these attributes into account assists the auditor in maintaining professional skepticism.

The revisions to SAS No. 142 address the evolving nature of transacting business as well as the evolution of audit services. Issues addressed include use of emerging technologies and techniques by both preparers and auditors, the application of professional skepticism, the expanding use of external information sources to provide audit evidence, and more broadly, the relevance and reliability of audit evidence

SAS No. 145 – Effective 2023

SAS No. 145, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, is effective for audits of financial statements for periods ending on or after December 15, 2023. Early implementation is permitted.

SAS No. 145 does not fundamentally change the key concepts underpinning audit risk but instead clarifies and enhances certain aspects of the identification and assessment of the risks of material misstatement to drive better risk assessments and, therefore, enhance audit quality.

SAS No. 145, enhances the following:

- requirements and guidance related to obtaining an understanding of the entity’s system of internal control and assessing control risk; and
- guidance that addresses the economic, technological, and regulatory aspects of the markets and environment in which entities and audit firms operate.

SAS No. 145 also includes revised and new requirements and guidance, including the following:

- a revised definition of significant risk;
- revised requirements to evaluate the design of certain controls within the control activities component, including general information technology (IT) controls, and to determine whether such controls have been implemented;
- a new requirement to separately assess inherent risk and control risk;
- a new requirement to assess control risk at the maximum level such that, if the auditor does not plan to test the operating effectiveness of controls, the assessment of the risk of material misstatement is the same as the assessment of inherent risk;
- a new “stand-back” requirement intended to drive an evaluation of the completeness of the auditor’s identification of significant classes of transactions, account balances, and disclosures;

- revised requirements relating to audit documentation;
- new guidance on scalability; and
- new guidance on maintaining professional skepticism.

Quality Management Standards – Effective 2026

The Auditing Standards Board (ASB) and the Accounting and Review Services Committee issued four interrelated final standards on quality management (collectively, QM standards), that are effective for engagements for periods beginning on or after Dec. 15, 2025:

- 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 (SAS) No. 146, *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*
- 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 Service*

The biggest change reflected in the new QM standards is the introduction of a risk-based approach to achieving quality objectives, which helps firms identify and address risks specific to their practice and creates a more scalable approach to quality for all firms.

The QM standards, among other things, do the following:

- Increase firm leadership responsibilities and accountability, and improve firm governance
- Introduce a risk-based approach focused on achieving quality objectives
- Address technology, networks and the use of external service providers
- Increase focus on the continual flow of information and appropriate communication, internally and externally
- Promote proactive monitoring of quality management systems and timely and effective remediation of deficiencies
- Clarify and strengthen requirements for a more robust engagement quality review
- Enhance the engagement partner’s responsibility for audit engagement leadership and audit quality

Resources can on the new QM standards can be found on the AICPA website at:

<https://www.aicpa.org/topic/audit-assurance/quality-management>