

# Staff Guidance – Insights for Firms

## QC 1000: A Firm’s System of Quality Control

November 2024

This guidance was prepared by PCAOB staff to help firms when implementing QC 1000 requirements. This staff guidance document sets forth the staff’s views on issues related to the implementation of the rules and standards of the PCAOB. It does not constitute rules of the Board, nor has it been approved by the Board. It relates to PCAOB Release No. 2024-005, *A Firm’s System of Quality Control and Other Amendments to PCAOB Standards, Rules, and Forms* (May 13, 2024).

## VII. ACCEPTANCE AND CONTINUANCE OF ENGAGEMENTS

This component addresses the firm's processes when considering whether to accept or continue an engagement. Acceptance and continuance of engagements is an aspect of a firm's compliance and risk management process, assisting the firm in mitigating reputational, business, and litigation risk. The quality objectives stress the importance of focusing their processes on the firm's ability to perform an engagement in accordance with APLR when considering whether to accept or continue an engagement.

### A. Quality Objectives

QC 1000.38

#### *Accepting or continuing an engagement*

Judgments about whether to accept or continue an engagement are:

- Initially made as part of or before performing preliminary engagement activities;
- Consistent with the firm's ability to perform the engagement in accordance with APLR, based on:
  - Whether the firm is independent;
  - Whether the services are permissible and any required audit committee pre-approval has been or will be obtained;
  - The extent to which the firm is or will be able to gain access to company information to perform the engagement, including company personnel who provide such information;
  - The extent to which the firm has or can obtain resources to perform the engagement; and
  - Other relevant factors associated with providing professional services in the particular circumstances; and
- Based on and supported by information about the nature and circumstances of the engagement and the integrity and ethical values of the company (including management and the audit committee).

***Terms of an engagement.*** The terms of the engagement, including its objective and the responsibilities of the firm and management, are consistent with APLR and are understood by the firm and the company.

Specified quality responses are not intended to be comprehensive and alone will not be sufficient to enable the firm to achieve all established quality objectives. Firms are required to design and implement their own quality responses.

### Required of all firms

Design, implement, and maintain policies and procedures to address situations in which the firm becomes aware of information subsequent to accepting or continuing an engagement that would have caused the firm to decline such engagement had that information been known prior to acceptance or continuance.

## C. Highlighted Topics

### 1. Evaluating the firm's ability to perform an engagement in accordance with APLR

The firm considers a number of factors when evaluating its ability to perform an engagement in accordance with APLR. The table below provides example considerations related to each factor that may be relevant to a firm that is determining whether to accept or continue an engagement:

Factor	Considerations
Independence, permissibility of services, and required audit committee pre-approval	<p>The firm's ability to perform the engagement includes considering whether the firm is independent and whether the services are permissible. These are threshold considerations for acceptance and continuance, because in general, the firm is not allowed to accept an engagement unless it is independent of the company for which the engagement will be performed and the services are permissible under APLR (including obtaining audit committee pre-approval where that is required).</p> <p>The firm's policies for acceptance and continuance in the areas of independence, permissibility of services, and pre-approval relate to and, to some extent, overlap with the ethics and independence component. The requirements in the ethics and independence component more generally address the ongoing evaluation of compliance with APLR relating to the independence of the firm, firm personnel, and others subject to such requirements (e.g., "persons associated with a public accounting firm" as defined in PCAOB rules or "covered persons in the firm" under the SEC independence rule).</p>
Access to company information and personnel	<p>The firm's ability to perform an engagement in accordance with APLR depends on the firm's ability to obtain information from the company and gain access to individuals at the company who can respond to the firm's inquiries. Restricted or limited access to company information or personnel—for example, due to language differences, physical location, or local law restrictions—could impair the firm's ability to perform the engagement in accordance with APLR.</p>
Resources to perform the engagement	<p>It's important for a firm to have the right resources available so that engagements can be performed in accordance with APLR. This includes the availability of resources like the following, either internal or external to the firm:</p> <ul style="list-style-type: none"> <li> <b>Firm personnel or other participants with competence to perform procedures</b> A firm needs to have enough resources with sufficient availability to meet audit timing requirements. When evaluating whether firm personnel have sufficient availability, the firm will need to consider their availability in light of all of their other work </li> </ul>

Factor	Considerations
	<p>commitments. In addition, an engagement could require individuals with specialized skills or experience, such as individuals with specific industry experience or experience related to new or specialized accounting pronouncements that apply to the company.</p> <ul style="list-style-type: none"> <li>• <b>Engagement partner</b> An engagement partner needs to have not only sufficient capacity to take on a new engagement, but also competence that is relevant to the engagement, which could include, for example, experience in the company's industry or with auditing a particular transaction or type of account that the engagement would require (e.g., a business combination or hard to value financial assets).</li> <li>• <b>Specialists</b> Different than individuals with specialized skills or experience, discussed above, an engagement could require involvement of specialists, such as actuaries or financial asset valuation specialists. In determining whether to accept or continue an engagement, a firm may need to consider whether they have access to the appropriate specialists, including any technological resources used by specialists, such as valuation models. Specialists could either be firm personnel or individuals external to the firm (i.e., other participants).</li> <li>• <b>Engagement quality reviewer</b> The engagement quality reviewer is required to be a partner or equivalent that has the relevant competence, independence, integrity, and objectivity relative to the engagement.<sup>6</sup></li> <li>• <b>Intellectual and/or technological resources needed to perform engagements</b> The facts and circumstances of an engagement may require the use of particular intellectual resources in its performance, such as industry-specific audit programs or technical accounting publications applicable to the engagement, or the use of specific technological resources.</li> </ul>
Other relevant factors	The firm's ability to perform engagements in accordance with APLR may also be affected by other factors associated with providing professional services in the particular circumstances. For example, a firm might determine that a potential engagement does not align with the firm's current strategic or operational decisions and actions.

## 2. Considering information about the nature and circumstances of the engagement

Information about the nature and circumstances of the engagement and the integrity and ethical values of the company, including management and the audit committee, is relevant when determining whether to accept or continue an engagement because it can help identify potential risks to performing the engagement that may result in the firm not being able to perform the engagement in accordance with APLR. For example, a firm deciding whether to accept a multilocation engagement with a significant subsidiary operated in a complex industry and located in a country where the firm does not have any operations or engagements may need to evaluate whether it can access specialized resources in a new country and perform the engagement in accordance with APLR.

Because members of management and the audit committee all have influence over the company's financial reporting, their integrity and ethical values are of particular importance when a firm decides whether to accept or continue an engagement. When obtaining

<sup>6</sup> See Paragraphs .03 - .08 of AS 1220, *Engagement Quality Review*.

information about integrity and ethical values of the company, a firm could identify a lack of management integrity that could affect the reliability of the company's accounting records.

Designing and implementing appropriate policies and procedures that direct and standardize the collection and evaluation of information about the nature and circumstances of the engagement and the integrity and ethical values of the company can help a firm to consistently make appropriate judgments about whether to accept or continue an engagement. These can include policies and procedures, for example, that require:

- Evaluating the nature of the company and the environment in which it operates, and documenting such evaluation;
- Reviewing public information about management and audit committee members from, for example:
  - Management and board member bios on the company's website and proxy statement;
  - Social media platforms; and
  - Press articles;
- Considering the firm's relevant history with the company (for example, difficulty in obtaining information or access or disagreement over accounting principles or judgmental areas of the audit);
- Obtaining and considering the results of background checks; and
- Conducting incremental acceptance and continuance procedures and/or obtaining additional approvals when an engagement or potential engagement meets certain criteria (e.g., if the company has a specific risk profile or is within a certain industry).

### **3. Becoming aware of information subsequent to accepting or continuing an engagement**

A firm's policies and procedures are required to address situations in which the firm becomes aware of relevant contrary information after the firm's decision to accept or continue an engagement. A firm is deemed "aware" of information when any partner, shareholder, member, or other principal of the firm first becomes aware of such information. This is the same standard that applies with respect to reporting of specified events on Form 3, Special Reporting Form.<sup>7</sup>

A firm is deemed "aware" of information when any partner, shareholder, member, or other principal of the firm first becomes aware of such information.

This contrary information may have existed at the time of the decision to accept or continue an engagement but may not have been known by the firm at the time, or it may have

---

<sup>7</sup> This form is used by firms to file special reports with the Board pursuant to Section 102(d) of the Sarbanes-Oxley Act and PCAOB Rule 2203.

emerged subsequent to that decision. Depending on the circumstances, appropriate responses could include such actions as:

- Discussing the information with management and the audit committee to determine if the firm is able to continue the engagement;
- Including this information in the auditor's risk assessment procedures so that any additional risks are responded to during the audit;
- Consulting with legal counsel or others within the firm to determine if the firm is able to continue the engagement;
- Withdrawing from the engagement and notifying appropriate regulatory authorities as required under APLR; and
- Revisiting the firm's policies and procedures regarding the acceptance and continuance of engagements to determine if they need to be adjusted.

The above responses are not intended to be a checklist, nor are they an exhaustive list of procedures to perform in this circumstance. A firm's policies and procedures over acceptance and continuance of an engagement depend on the unique facts and circumstances of the firm and its engagements.