

Acceptance and Continuance of Client Relationships and Specific Engagements

MICPA Quality Management Roundtable Session

Presented by Kareyna Miller, CPA, CRISC



LEACIF

Certified Public Accountant

Introduction



Welcome to this morning's Quality Management Roundtable session, focusing on Acceptance and Continuance of Client Relationships and Specific Engagements.

Today's presenter is Kareyna Miller, CPA, CRISC. Kareyna is the founder of LEACIF, a small firm whose engagements include financial statement preparations and agreed-upon procedures, as well as accounting, advisory, and tax services.

As a small firm, A&C is one of the firm's highest risk areas. Kareyna began re-vamping the firm's A&C process in summer 2021, in response to the SQMS No. 1 draft.

Favorite SQMS Quote:



“Quality management is not a separate function of the firm; it is the **integration of a culture** that demonstrates a commitment to quality with the firm’s **strategy, operational activities, and business processes**. As a result, designing the system of quality management and the firm’s operational activities and business processes in an **integrated manner** may promote a harmonious approach to managing the firm and enhance the effectiveness of quality management.”

Disclaimer



The information provided herein is not and shall not be construed as tax, accounting, legal, regulatory, or other professional advice or sufficient to satisfy any such requirements.

Attendees should consult available resources and guidance provided by the MICPA, AICPA, and other professional advisor(s) for advice appropriate to their situations. This presentation is not sufficient to rely on alone, and the information presented is not complete.

Please consult Statement on Quality Management Standards, No. 1: A Firm's System of Quality Management and related technical guidance.

This presentation is for general purposes only.

Goals for This Session



- Review overview of QMS Component Acceptance and Continuance of Client Relationships and Specific Engagements and underlying quality objectives;
 - Discuss the relationship of A&C quality objectives to other QMS Components;
- Discuss quality risks and responses to meeting underlying A&C quality objectives;
- Review procedures and documentation to support the A&C process;
- Review overview of Specified Response related to A&C;
- Review an example of an A&C Workflow in a small firm.

Overview: Acceptance and Continuance of Client Relationships and Specific Engagements, from SQMS No. 1:

The firm should establish the following quality objectives that address the acceptance and continuance of client relationships and specific engagements:

- a. Judgments by the firm about whether to accept or continue a client relationship or specific engagement are appropriate based on the following:
 - i. Information obtained about the nature and circumstances of the engagement and the integrity and ethical values of the client (including management and, when appropriate, those charged with governance) that is sufficient to support such judgments
 - ii. The firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements
- b. The financial and operational priorities of the firm do not lead to inappropriate judgments about whether to accept or continue a client relationship or specific engagement.

Overview: Breaking it down



i. Information obtained about the **nature and circumstances of the engagement** and the **integrity and ethical values of the client** ...

- ‘Nature and circumstances of the engagement’: Need to establish this understanding, in order to make appropriate judgements.
 - Engagement scope → relevant engagement standards and resource needs.
 - Understanding of the client’s business and its industry.
 - Evaluation of industry risk.
- ‘Integrity and ethical values of the client’:
 - Sets the tone, impacting the firm’s relevant ethical requirements, strategy (governance) and resource impacts.
 - We don’t want bad clients, but how do we evaluate this?
 - Difference from prior QC standards: Client integrity is addressed first, with addition of ‘ethical values.’

Overview: Breaking it down, continued



ii. The firm's ability to perform the engagement in **accordance with professional standards and applicable legal and regulatory requirements**

- Determine the professional standards and legal and regulatory requirements in (i) as part of the 'nature and circumstances of the engagement.'
 - Does the firm have experience with similar engagements? (Resources)
 - Does the firm have team members with the appropriate skills and knowledge? (Resources)
 - Is the relevant CPE up to date? (Resources)
 - Are there any engagement-specific risks that require additional responses, so that the firm can comply with professional standards? (Relevant Ethical Requirements)
 - ET General Standards 1.300
- Similar to prior QC: Is the firm competent and capable of performing the engagement, and can it comply with legal and relevant ethical requirements?

Overview: Breaking it down, continued



b. **The financial and operational priorities** of the firm do not lead to inappropriate judgments about whether to accept or continue a client relationship or specific engagement.

- Financial and operational priorities are generally determined at the Governance level.
 - Priorities should support a 'quality first' approach.
 - Is the engagement or client relationship a 'quality fit', if not for the engagement fee?
 - Do operational priorities support proactively maintaining quality?
 - Engagement Performance
 - Resources
 - Information and Communication

Quality Risks



The firm should establish the following quality objectives that address the acceptance and continuance of client relationships and specific engagements.

But what happens if we don't meet the quality objectives?

Identifying Quality Risks

What is the likelihood and impact of not meeting a quality objective?

Resource: AICPA Risk Assessment Template

- Responses should be designed accordingly based on the likelihood and impact of the quality risks identified.
 - Consider how risks and responses for A&C can impact other components in the design of responses (aka controls, or processes, procedures, and documentation)

Judgments by the firm about whether to accept or continue a client relationship or specific engagement are appropriate based on the following							
i. information obtained about the nature and circumstances of the engagement and the integrity and ethical values of the client (including management, and, when appropriate, those charged with governance) that is sufficient to support such judgments (Ref: par. A69-A74)							
Quality Objective #	Quality Risk #	Quality Risks: Acceptance and continuance of client relationships and specific engagements	Likelihood	Impact	Quality Risk	Quality response #	Quality response (policy or procedure)
EAC QO-1	EAC QRi-1	The firm does not obtain information about the nature and circumstances of the engagement and the client (including management, and, when appropriate, those charged with governance) that is sufficient to support judgments about client acceptance or continuance.			Yes	EAC QRe-3	Policy: The firm has established policies and procedures when information that becomes known subsequent to accepting or continuing a client relationship or specific engagement that may have affected the firm's decision to accept or continue a client relationship or specific engagement as follows. [specified response par. 35di]
EAC QO-1	EAC QRi-2	The firm accepts or continues a client relationship or specific engagement when the firm does not have the ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements			Yes	EAC QRe-2.05	The firm evaluates whether the firm (or practice office) has, or can reasonably expect to obtain, the competency and capability necessary to perform the engagement, including relevant regulatory or reporting requirements.

Note on A&C Quality Risks



Acceptance and continuance decisions can impact all other components of the system of quality management.

Consider that if the firm does accept and continue client relationships that are not appropriate, how might the following areas be impacted?

- Governance and leadership (ie, strategy and culture)
- Relevant ethical requirements
- Engagement performance
- Resources
 - Are clients a good fit for your Engagement Teams?
- Information and Communication

Responses under A&C - (a.i) Nature and Circumstances



- Client evaluation and onboarding process
 - How do you determine the nature and circumstances of the engagement?
 - Is there client-level risk, including industry risk?
 - What is the nature of the engagement?
 - Are there other service components, besides those under SSARS, SSAE, or SAS?
- Use a consistent process to obtain and document Nature and Circumstances information
- Use a Form to evaluate specific criteria against the nature and circumstance information obtained, in order to assist with appropriate judgment.
- Initial and annual evaluations.
- Consider more frequent feedback or communication of A&C relevant information by the engagement team.

Responses under A&C - (a.i) Nature and Circumstances, continued



- Response considerations:
 - Consistent process for documenting nature and circumstance information
 - Procedures for evaluating client records and documenting items that may impact the nature and circumstances
 - Process for determining relevant professional standards and legal requirements impacting the nature and circumstances
 - Process for evaluating and confirming the information obtained is sufficient to support whether it is appropriate to accept or continue the engagement

Responses under A&C - (a.ii) Ability to perform the engagement in accordance with professional standards, and legal and regulatory requirements



- Client evaluation and onboarding process
 - How do you determine the professional standards and legal and regulatory requirements applicable to the engagement?
 - How do you determine conformance to professional standards?
 - New type of engagement might require new processes, documentation, and tools
 - How do you determine the Engagement Team has the knowledge and expertise, and if CPE obtained is appropriate or not?
 - Does professional competency need to be developed further?

Responses under A&C - (a.ii) Ability to perform the engagement in accordance with professional standards, and legal and regulatory requirements, continued

- Use a consistent process to determine and communicate required professional standards and legal/regulatory requirements
- Use workflows and other responses specific to the type of engagement that are designed to support the A&C responses.
 - “Programs”
 - Engagement letters
 - Risk assessment
 - Setup / Task assignment
 - Communication to the Engagement Team and Client

Responses under A&C - (b) Financial and operational priorities do not lead to inappropriate judgments about whether to accept or continue a client relationship or specific engagement.

- Governance and Leadership
 - What are the firm's financial and operational priorities?
- Client evaluation and onboarding process
 - How do you determine if the engagement aligns with financial and operational priorities?
 - Engagement fee
 - Client attitude/cadence
 - Client conformance to the firm's processes
 - Team capacity
 - What if your team has excess capacity? Will you take lower fee or lower quality engagement to 'keep everyone busy'?
 - Market/competition?
- Does the client contribute to moving forward the firm's vision?
- Does the client contribute to a healthy culture and work environment?

Documentation Considerations



- Adopt a standardized Checklist for Acceptance and Continuance of a Client
 - Onboarding Process/Information gathering
 - Ideal Client Characteristics
- Criteria Evaluation Form
 - May be different, depending on the engagement type (different engagements = different criteria)
- Policy and procedures for how a client engagement and relationship should be evaluated and what should be documented
 - Tools/resources to facilitate
- Communications policy for attracting new clients
 - Does your 'marketing' support your A&C responses and risk management?
- Onboarding workflow
 - New Client lead → Work beginning
 - Link workflow responses (procedures/tasks) to A&C and other QM components
- Renewal workflow for existing clients
 - Annual evaluation
 - Feedback from Engagement Team and others

Specified Response:



The firm establishes policies or procedures that address the following circumstances:

- i. The firm becomes aware of information subsequent to accepting or continuing a client relationship or specific engagement that would have caused it to decline the client relationship or specific engagement, had that information been known prior to accepting or continuing the client relationship or specific engagement.

Specified Response:

- Are there specific events that would have caused the firm to decline?
 - You find out the client broke the law or committed financial fraud
- Are there specific behaviors that would cause the firm to decline?
 - Client pesters your Team for updates constantly
 - Client does not provide information timely
 - Client is slow to pay service fees
- Process for dismissing clients
 - Dismissal letter/communication
 - Communication to Engagement Team
 - File wrap up/close
 - Return documents to client
- Process for putting clients or engagements 'on notice'
 - Aware that a problem may be occurring, but are there steps to address it that do not lead to termination?

Overall, Questions to Consider:



- Does the firm annually evaluate its clients?
- Does the firm have a form for acceptance and continuance of clients?
- Does the firm have an approval process for new clients?
- Does the firm have an overall scheduling system to determine staffing needs?
- Does the firm belong to any audit quality centers?
- Does the firm have a personnel manual?
- Does the firm have job descriptions?
- How does the firm schedule its CPE and determine what CPE is needed for each employee?

Sample A&C Workflow: New Client, SSARS with SSCS and SSTs



Our typical 'Managed Accounting Services' Client

- New client lead →
 - Document a lead form
 - Lead form contains: Industry, LARA Entity Search Record Link, Client Contact, screenshots or other notes from lead establishment
 - Goal: Know who we will be talking to
 - Next Action: Introduction call
- Introduction call
 - Determine overview of service needs, information about the client
 - Number of owners
 - State of current accounting records
 - Other information about the business
- Invite to our portal
 - Portal has:
 - EQM-4 Client Policies, Terms and Conditions
 - EQM-3 Short Guide to Ethics
 - Communicates our policies, ethics information, expectations

Sample A&C Workflow: New Client, SSARS with SSCS and SSTs, continued



- Portal →
 - Questionnaires for Client:
 - Client business profile
 - Contact information, general business information
 - Client governance profile (EQM-2 Governance)
 - Questions include about attitudes, ethics and integrity, goals, values, business and accounting environment
 - Records Request (EQM-1 Records Request)
 - Business documents
 - Past tax returns
 - Access to their accounting system
 - EQM-3 Data Security Questionnaire
- Portal →
 - Questionnaires for us:
 - Risk and Threat Register (EQM-1 Risk and Threat Register)
 - Nature of industry, conflicts of interest
 - Records Review (EQM-1 Records Analysis Notes)
 - Document notes, concerns, and start of scoping needs

Sample A&C Workflow: New Client, SSARS with SSCS and SSTs, continued



- Spreadsheet → Engagement Scoping (EQM-4 Service Scoping)
 - Form to document service needs; later will be approved and transferred to the Proposal
- Portal →
 - Questionnaire for us to complete, client-facing
 - Professional Standards (EQM-3 Professional Standards)
 - Includes engagement standards, consideration of conflicts of interest, and client safeguards
 - Client Evaluation (EQM-4 Acceptance and Continuance Evaluation)
 - Individual Criteria organized by section:
 - Nature/circumstances and the Client's ethics and integrity
 - Firm's ability to perform
 - Operational/financial priorities
 - *Data security
 - Criteria evaluation 1-5
 - New clients can't score higher than a 4 for any item
 - Scores of 3 or less require explanation
 - Incorporate Risk and Threat Register → Do any criteria individually or in the aggregate result in an increased threat / greater risk?
 - Evaluation and criteria considered are different for SSARSs vs SSAE engagement, for example

Sample A&C Workflow: New Client, SSARS with SSCS and SSTs, continued



Brief engagement description.	Fractional Controller and Tax Advisory Services	
The engagement standards applicable to our engagement include:	<input checked="" type="checkbox"/> SSARS (including managed accounting with financial statement preparation)	
	<input checked="" type="checkbox"/> SSTs - Business	
	<input checked="" type="checkbox"/> SSCS	
What is the date of the SSARS engagement letter?	Apr-17-2024	
Is the SSCS engagement included with a SSARS or SSTs engagement letter?	Yes, the SSARS engagement letter	
Link(s) to engagement letter or folder	https:/	lrive_link
Is the client a cannabis operator?	Yes	
Is the client a new business, less than 5 years in operation?	Yes	
Text block	Display	
Text block	Display	
Did we communicate or seek information from any third parties during this evaluation?	<input checked="" type="checkbox"/> Yes, we communicated with the client's predecessor accountant.	
Discussion with Predecessor Accountant 1		
Quality Objectives		
Section 1: Integrity and Ethical Values of the Client		
Question	Answer	
Text block	Display	
(1 of 25) The client cares about our integrity, and meets a rating criteria of:	5	
(2 of 25) The client cares about our values, and meets a rating criteria of:	4	
(3 of 25) The client cares about good business ethics, and meets a rating criteria of:	4	
(4 of 25) The client has reasonable expectations of their own business and its limitations, and meets a rating criteria		

How our A&C Evaluation Form looks completed in our system.

Form has ~ 100 questions / criteria.

Sample A&C Workflow: New Client, SSARS with SSCS and SSTs, continued



- Portal →
 - Proposal
 - Engagement Agreement
 - Engagement Letter → type of letter depends on the relevant engagement standards
 - Engagement coverage ~1 year
 - Services
 - Policies, Terms and Conditions
 - Engagement Begins (EQM-5)
 - Engagement Strategy (EQM-5)
 - Workflow (processes, tasks, etc.) (EQM-5) ...
 - Annual reminder to re-evaluate/renew

Questions, Considerations, Ideas?

Resources:

- AICPA Quality Management Page - <https://www.aicpa-cima.com/topic/audit-assurance/quality-management>
- AICPA QM Practice Aid - <https://www.aicpa-cima.com/resources/download/practice-aid-quality-management>
- Quality Management Standards Resource & Roundtable Group - <https://connect.micpa.org/groups/34731>

Thank You!

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