

September 11, 2026

To our peer review clients:

Annually, we make an effort to highlight recent changes in professional standards for our peer review clients. We hope what follows is helpful in your accounting and auditing practice.

Quality Management Standards – Now in Operation

The AICPA's new Quality Management (QM) Standards became fully effective December 15, 2025. If your firm performs audits, reviews, compilations, preparations, or other engagements, your system of quality management (SOQM) should now be operating—not simply documented. The transition from quality control to quality management is important because the new standards require an ongoing, risk-based system.

There are a few requirements under the new standard that deserve particular attention during 2026:

- SQMS No. 1 requires that the individual or individuals assigned ultimate responsibility and accountability for the SOQM evaluate the system at least annually and conclude whether it provides reasonable assurance that the quality objectives are being achieved. In a typical partnership, this responsibility rests with the managing partner, even if the managing partner is a tax partner. The initial evaluation is required to be performed within one year following December 15, 2025. The annual evaluation and the basis for the conclusion should be documented. See additional discussion of this topic later in this letter.
- The monitoring process includes post-issuance reviews of completed engagements. This inspection process should be designed so that, on a cyclical basis, such as every three years, at least one completed engagement is selected for each engagement partner.
- SQMS No. 1 became effective December 15, 2025. The engagement-level standards associated with the new QM framework—SAS No. 146 for audits and SSARS No. 26 for review, compilation, and preparation engagements—are effective for engagements with periods beginning on December 15, 2025. Accordingly, there is a technical distinction between implementing the firm-wide QM system on December 15, 2025, and applying the new engagement-level requirements to engagements for periods beginning on or after December 15, 2025. For example, a calendar-year 2025 review or compilation can still be performed under the pre-SSARS No. 26 engagement requirements. Practically, however, firms should not treat this as permission to operate two unrelated systems. If you implemented your new SOQM on December 15, 2025, your engagement policies, forms, review procedures, and documentation process should be aligned with the risks and responses you identified in that new system.

This is important: If you used the AICPA or PPC risk templates to develop your Quality Management Document, and if you modeled your QM document on the sample document in the *PPC Guide to Quality Management*, your risk template and your QM document may have several gaps or deficiencies. You may need to revise the risk template to enter additional quality risks and your firm's responses to those risks, which, in turn, will require corresponding updates to your firm's Quality Management document. Here are two areas that may need attention:

- Because Continuing Professional Education (CPE) requirements vary by state and should be tailored based on the nature of your practice, both the AICPA and PPC risk templates provided

minimal or no guidance for policies and procedures on CPE to include in your firm's QM document. However, if you search the AICPA "Library of Quality Objectives, Potential Risks, and Potential Responses" under the resources component you can find sample risks and responses for CPE. We recommend that if you haven't already included risks and responses for CPE in your QM risk assessment you add them to your risk matrix and revise your QM document. Here are example entries for CPE you might make on the AICPA risk matrix. The entries in the "Quality Response" column would then also appear in your QM document.

RES QO-2 Personnel demonstrate a commitment to quality through their actions and behaviors, develop and maintain the appropriate competence to perform their roles, and are held accountable or recognized through timely evaluations, compensation, promotion, and other incentives. (Ref: par. A95-A97)							
Quality Objective #	Quality Risk #	Quality Risks: Resources	Likelihood	Impact	Quality Risk	Quality response #	Quality response (policy or procedure)
RES QO-2	RES QRI-12	The firm does not provide opportunities for personnel to participate in professional development activities that enable them to accomplish their assigned responsibilities.			Yes	RES QRe-8.05	The firm provides CPE to personnel in subjects that are relevant to their responsibilities. In addition, the firm has established minimum CPE requirements for professional personnel assigned to Audit and Accounting engagements. These requirements apply regardless of whether the staff member is licensed. Staff members are required, every two years, to obtain a minimum of four hours of CPE in auditing standards, four hours in SSARS, and an additional four hours in financial statement presentation and disclosure. The firm assigns an individual responsibility for maintaining and tracking CPE records for professional personnel.
RES QO-2	RES Qri-19	Personnel do not have the appropriate continuing professional education (CPE) required by law, regulation, or professional standards (which require competency) for the work they perform (for example, Government Auditing Standards requirements, AICPA Employee Benefit Plan Audit Quality Center requirements, and so on).			Yes	RES QRe-8.07	All personnel must comply with the professional education requirements of the boards of accountancy in states where they are licensed. In addition, personnel must comply with CPE requirements for specialized industries as appropriate. The SQM director monitors compliance quarterly.

- SQMS 1 requires the individual with ultimate responsibility (i.e., your Managing Partner) to document a formal conclusion on your system's effectiveness at least annually. If a firm simply completes the standard AICPA or PPC risk matrix, it will likely fail to generate this policy. Historically, PPC notified subscribers that because firms would not perform their first formal system evaluations until a full year after implementing the new QM standards, the guidance would be provided in a subsequent edition.

Neither the AICPA risk matrix nor the guidance from PPC adequately address the new requirement for the Managing Partner to evaluate and conclude on whether the firm's Quality Management system provides the firm with reasonable assurance that the objectives of the system of quality management (SOQM) are being achieved. The annual evaluation is part of the monitoring and remediation component and should be separately documented. However, neither the AICPA nor PPC include the monitoring and remediation component in their risk matrix templates. This is because the QM standards do not require risk assessment for the monitoring component. Therefore, we recommend you consider adding the following language directly to the Monitoring and Remediation section of your QM document:

Within 60 days following the conclusion of the annual monitoring communication, the Managing Partner shall formally evaluate the SOQM and conclude whether the system provides the firm with reasonable assurance that the objectives of the SOQM are being achieved. The Managing Partner will sign and date a formal statement concluding that the SOQM is either: (a) Operating effectively and providing reasonable assurance, (b) Operating effectively except for severe but not pervasive matters, or (c) Not operating effectively and does not provide reasonable assurance. The managing partner may use the "Annual Declaration: Objectives

Achieved Form” in the PPC Guide to Quality Management practice aid available in the firm’s professional library to document this.

Another approach would be to paste the following text block directly into your QM document at the end of your Monitoring and Remediation chapter or as an appendix to your QM document:

STATEMENT OF ANNUAL CONCLUSION ON THE SYSTEM OF QUALITY MANAGEMENT

In accordance with SQMS No. 1, I have evaluated the System of Quality Management of The ABC Group, CPAs for the evaluation period ending [Insert Date, e.g., October 31, 2026]. Based on the annual monitoring results, root cause analyses performed on identified deficiencies, and remedial actions implemented, I have reached the following conclusion (Check One):

☐ The SOQM provides the firm with reasonable assurance that the objectives of the system are being achieved.

☐ The SOQM provides the firm with reasonable assurance that the objectives of the system are being achieved, EXCEPT FOR matters related to identified deficiencies that are severe but not pervasive. (Action plan attached).

☐ The SOQM DOES NOT provide the firm with reasonable assurance that the objectives of the system are being achieved. (Action plan attached).

Managing Partner Signature: _____

Date: _____

Peer Review Standards Update No. 3 – Alternative Practice Structures

The AICPA recently issued Peer Review Standards Update (PRSU) No. 3, Modernizing Peer Review Administration Requirements. One of the most significant changes affects firms operating under alternative practice structures (APS), including firms with private-equity or other nontraditional ownership or operating arrangements. APS firms will need to have their peer reviews administered through the AICPA’s National Peer Review Committee (NPRC), rather than through one of the state administering entities.

If your firm is operating under an APS, this has significant impact on your quality management system. The peer reviewer will need to understand the relationship between the CPA firm and the non-CPA or related entity, the allocation of responsibilities, independence considerations, governance and leadership, personnel and resources, and how the firm’s SOQM operates across the structure. Firms with APS arrangements should make sure their organizational documents, quality-management documentation, and the service agreement between the attest and non-attest firms clearly describe the structure and the responsibilities of the parties involved.

Group Audits – SAS No. 149

SAS 149 becomes effective for group financial statement audits for periods ending on or after December 15, 2026. SAS 149 applies even when your firm is the sole auditor of the group. Note that the requirement to document materiality at the subsidiary or component level has been removed.

External Confirmations – SAS No. 150

The AICPA issued SAS No. 150, *External Confirmations*, in July 2026. SAS No. 150 substantially revises AU-C 505 and related auditing guidance. The most significant change is a new requirement for the auditor to perform external confirmation procedures for cash and cash equivalents held by third parties. If you have direct access to the client's bank account, and obtain audit evidence directly through that formal access, you will not have to confirm. Screen sharing does not work though. Merely observing a client log into their account workstation or reviewing balances on a client's computer monitor does not satisfy the standard. SAS No. 150 is effective for audits of financial statements for periods ending on or after December 15, 2028, with early implementation permitted.

Fraud in an Audit of Financial Statements – SAS No. 151

In August 2026 the ASB approved SAS No. 151, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, which will supersede existing AU-C section 240. The final version of the standard is expected to be posted in October 2026. Major changes include applying a stronger focus on fraud considerations during risk assessment and understanding the entity's whistleblower or other fraud-reporting programs, when they exist. SAS No. 151 is effective for audits of periods ending on or after December 15, 2028, or upon early adoption.

Governmental Accounting

GASB Statement No. 103, *Financial Reporting Model Improvements*, is effective for fiscal years beginning after June 15, 2025. Accordingly, it applies to governments with fiscal years ending June 30, 2026, and later. GASB 103 makes significant changes to financial statement presentation, including Management's Discussion and Analysis, budgetary information, and proprietary fund reporting.

Regarding budgetary information, there is no longer the option previously allowed under GASB 34 to present budgetary comparison information for the general fund and major special revenue funds in the basic financial statements. In a GAAP presentation, budgetary comparison schedules for the general fund and major special revenue funds now must be presented as Required Supplementary Information (RSI). On the budgetary schedules there will be a new variance column for the variance between the original and the final budget. There is a requirement for mandatory explanatory notes in the RSI to address the reasons for significant budget fluctuations.

Note that these changes for budgetary information apply to GAAP financial statements. If the financial statements are, for example, on the modified cash basis of accounting, the new variance column would not be required. On the modified cash basis, the concept of RSI does not apply. All budgetary schedules are presented as supplementary information.

For governments with proprietary funds, the changes to the statement of revenues, expenses, and changes in fund net position deserve particular attention. GASB 103 establishes revised definitions of operating and nonoperating revenues and adds a separate presentation for noncapital subsidies. There will be a new subtotal on the financial statements for operating income and noncapital subsidies. The revised presentation generally follows this sequence: operating revenues; operating expenses; operating income or loss; noncapital subsidies; operating income or loss and noncapital subsidies; other nonoperating revenues and expenses; income or loss before unusual or infrequent items; unusual or infrequent items; and the resulting change in net position.

Per an inquiry we made of GASB, property tax revenues recorded in proprietary funds should be classified as noncapital subsidies.

In addition, the GASB representative we consulted noted that the new guidance on formatting the statement of revenues, expenses, and changes in fund net position for proprietary funds would not apply to the budgetary schedules that Oregon Minimum Standards require. Although the GASB standards do apply to the budgetary comparisons for the general and major special revenue funds, that

is because they are RSI. The state-mandated budgetary schedules, including those for proprietary funds, are not RSI and therefore GASB standards do not apply to them.

GASB 104, *Disclosure of Certain Capital Assets*, is effective for fiscal years beginning after June 15, 2025. It requires additional disclosure of certain capital asset categories, including right-to-use assets associated with leases and subscription-based information technology arrangements.

The GAO updated *Government Auditing Standards* (known as the Yellow Book) to incorporate the new QM standards issued by the AICPA (see discussion above). Audit organizations are required to have designed and implemented a Yellow Book-compliant system of quality management by December 15, 2025, and the initial evaluation of that system is required by December 15, 2026. The 2024 Yellow Book is effective for audit engagements with periods beginning on or after December 15, 2025. Therefore, technically speaking, the 2024 revision would not apply to your June 30, 2026, fiscal year engagements, but see the discussion on the first page of this letter, recommending immediate application of the new QM standards at the engagement level.

Single Audits – Uniform Guidance and Compliance Supplement Changes

Firms performing Single Audits should be aware of several significant changes to the federal grant audit environment due to the 2024 revisions to the Uniform Guidance, which apply to fiscal years beginning on or after October 1, 2024. Therefore, these revisions apply to your June 30, 2026, fiscal year engagements. The most important change is the increase in the Single Audit threshold from \$750,000 to \$1 million of Federal awards expended. The Type A program threshold was also increased to \$1 million for entities with total Federal awards expended of \$34 million or less.

The 2024 revisions to the Uniform Guidance also resulted in significant changes to the requirements applicable to Federal awards, including changes involving equipment and supply thresholds, procurement, subrecipient monitoring, closeout, and the de minimis indirect cost rate.

The 2026 Compliance Supplement is expected to contain additional program and compliance changes. Because the final 2026 Supplement has not yet been issued, firms should avoid relying solely on prior-year Single Audit programs and should update their planning and compliance-testing procedures when the final Supplement becomes available.

The AICPA audit guide *Government Auditing Standards and Single Audits* has been updated. There is an increased emphasis on assessing the risk of material noncompliance (RMNC), which can lead to larger sample sizes.

Review, Compilation and Preparation Engagements

SSARS No. 26 amended the standards for review, compilation, and preparation engagements as part of the AICPA's QM initiative. These engagement-level changes generally apply for periods beginning on or after December 15, 2025. As discussed above, this creates a distinction between the December 15, 2025, effective date for SQMS No. 1 and the later engagement-level application of SSARS No. 26. SSARS No. 26 also clarifies that compilation and review reports can include either a manual or printed signature of the accountant's firm. SSARS No. 26 eliminates the requirement in AR-C Section 90 that the engagement letter for a review engagement be obtained prior to beginning the review.

SSARS No. 27, *Applicability of AR-C Section 70 to Financial Statements Prepared as Part of a Consulting Services Engagement*, addresses an issue that has become increasingly important as CPA firms expand into client advisory, controllership, and outsourced CFO services. SSARS No. 27 clarifies that when financial statements are prepared as part of a consulting services engagement under CS Section 100, and preparation of financial statements is not the primary objective of the engagement, the accountant is not required to apply AR-C Section 70 solely because financial statements are produced as a by-product of the consulting engagement. This can be particularly useful for firms providing outsourced CFO or controllership services, and for firms simply providing bookkeeping services to their

tax advisory clients. However, if the primary objective of the engagement is to prepare financial statements, AR-C Section 70 continues to apply. Firms should clearly define the primary objective and scope of the engagement in the engagement letter and document their conclusion regarding which professional standards apply. SSARS No. 27 is effective for financial statements for periods ending on or after December 15, 2026, with early implementation permitted.

Revenue Recognition and Tariffs

Tariffs have created an unusual financial reporting issue during 2026, particularly for entities that paid tariffs that are now subject to potential or approved refunds. There is no specific U.S. GAAP model written solely for tariff refunds. Accordingly, firms should carefully evaluate the facts and the accounting model being applied.

When reviewing a client affected by tariffs, consider at least the following: how the tariff was originally recorded; whether a refund is probable and reasonably estimable or otherwise meets the applicable recognition threshold; whether inventory or other assets still contain tariff costs; whether customers are entitled to any refund or credit; and whether the financial statements adequately disclose significant uncertainty surrounding the amount or timing of the recovery.

Current Expected Credit Losses (ASC 326)

Firms should monitor the continuing application of the credit-loss requirements in ASC 326. We covered this topic in prior update letters. Note that disclosures under this standard are not required if credit losses are not material to the presentation. If you have properly determined that credit losses are not material, then, as with any other professional standard that has no material impact, this standard would not require disclosures on credit losses. If the financial statements do not include an allowance for credit losses, or a credit loss expense, then there is likely no need for a footnote disclosure on credit losses.

We're here to help. If you have questions about implementing any of the new standards, or need sample policies, footnotes, or planning tools, please reach out. We appreciate your continued trust.

Very truly yours,

THE RBH GROUP, LLC