A Qualitative Comparative Analysis of the Transition from Quality Control to Quality Management: Examining the Changes Introduced by SMM 1 and SMM 2

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Abstract

This research analyzes the change in concepts and structure from the quality control approach within Standar Pengendalian Mutu 1 (SPM 1) towards the quality management system in Standar Manajemen Mutu 1 (SMM 1) and Standar Manajemen Mutu 2 (SMM 2). This research uses qualitative comparative documentary analysis adopting a configurational approach on standards issued by the Indonesian Institute of Public Accountants (IAPPI). The analysis process involves open coding, axial coding, comparative mapping, and configurational analysis on areas such as governance, ethics, client acceptance, resources, quality objectives, quality risk, responses, information and communication, monitoring and remediation, and engagement quality review. The difference between SPM 1 and SMM 1 is that SPM 1 standardizes policies and procedures in six aspects of quality control, while SMM 1 standardizes the quality objectives and the principles of risk-based governance and asks companies to adapt their policies to their nature, context, and engagement portfolio. Moreover, SMM 2 enhances the level of protection at the engagement level through defining specific standards for reviewer qualification, objectivity, performance, completion, and documentation. From a theoretical perspective, the new framework alters the paradigm of standardization from procedural compliance to quality governance and implements the quality management principles of prevention, integration, feedback, learning, and continual improvement.

Keywords: audit quality; quality management; SMM 1; SMM 2; risk-based governance

Introduction

The credibility of financial statements is dependent on the quality of audit of the financial statements by public accountants. Quality of audit goes beyond just ensuring compliance with technicalities of an audit at the engagement level but also involves how the firm conducts itself in terms of its governance, ethics, resource management, supervision, consultation, monitoring and accountability. In Indonesia, the Institute of Indonesian Public Accountants (IAPI) has progressively established professional standards meant to ensure quality engagement and serve the public interest (Pemerintah Republik Indonesia, 2007; IAPI, 2018).

According to history, the public accounting firms in Indonesia had quality control systems following Standar Pengendalian Mutu 1 (SPM 1) that were operational starting from 1 January 2013. The SPM 1 included six components, namely leadership commitment for quality, ethical

considerations, client relationship and specific engagement acceptance and continuance, human resource, engagement performance, and monitoring (IAPI, 2013). The structure followed the framework of International Standard on Quality Control 1 in which quality is basically achieved by having firm level control policies and engagement procedures.

The rise in the complexity of the entities, engagements, technologies, networks, and stakeholders' expectations necessitated a reconsideration of whether a procedural approach to quality control could be enough. Consequently, the international auditing standards board introduced two new standards known as International Standard on Quality Management 1 (ISQM 1) and International Standard on Quality Management 2 (ISQM 2) in December 2020. ISQM 1 superseded ISQC 1 by introducing a proactive and tailored framework for quality management, whereas ISQM 2 introduced a separate standard for engagement quality review. The international standards came into effect from 15 December 2022 (IAASB, 2020a, 2020b).

IAPI adopted the international architecture through Standar Manajemen Mutu 1 (SMM 1) and Standar Manajemen Mutu 2 (SMM 2). The Indonesian standards were approved in September 2024 and become effective on 31 December 2025, with early application permitted. SMM 1 requires firms to design, implement, and operate a system of quality management that establishes quality objectives, identifies and assesses quality risks, designs and implements responses, supports information and communication, and operates monitoring and remediation processes. SMM 2 separately regulates the appointment, eligibility, objectivity, performance, completion, and documentation of engagement quality reviews (IAPI, 2024a, 2024b).

The transition therefore extends beyond the replacement of the expression quality control with quality management. It changes the organizing logic of the firm-level system. Under SPM 1, firms were required to establish policies and procedures around predefined elements. Under SMM 1, firms must first understand their nature and circumstances, establish relevant quality objectives, determine what could threaten those objectives, and design responses proportionate to the assessed risks. The framework also broadens resources beyond personnel to technological and intellectual resources and formalizes information, communication, deficiency evaluation, root-cause analysis, remediation, and annual evaluation of the system (IAPI, 2013; IAPI, 2024a).

Despite the regulatory significance of this change, Indonesian academic discussion has not yet sufficiently mapped the conceptual and structural differences among SPM 1, SMM 1, and SMM 2 as an integrated quality-governance configuration. Most of the literature focuses on issues relating to implementation readiness or individual needs, providing little attention to how these elements affect the process as a whole. The lack of consideration of this issue is critical because the process of

implementation can become routine when organizations do not perceive the underlying change in the logic of governance.

Therefore, the current study examines a qualitative comparative documentary analysis of SPM 1, SMM 1, and SMM 2 from a configurational perspective. It attempts to answer two main research questions: (1) What substantive changes to the governance of audit-quality are introduced through the move from SPM 1 to SMM 1 and SMM 2? and (2) How does the changes transform the audit-quality governance into a system of proactive, risk-based, and continuously improving quality management? By answering these questions, the study seeks to contribute to both theoretical and practical aspects of the evolving logic of professional standardization.

Literature Review/Theoretical Basis

Standardization Theory

The Standardization Theory is a helpful tool for comprehending the rationale behind professional standards, which require consistency and organization-level adaptations at once. They serve to decrease uncertainty, develop common expectations, achieve compatibility, and enhance comparability of the organizations active in the same professional environment (David & Greenstein, 1990). In transnational context, standards act as instruments of governance, coordinating actors that cross jurisdictional and organizational borders (Botzem & Dobusch, 2012).

The difference between compatibility standards and quality standards is particularly important for auditing. The former ensures interoperability of practices, while the latter defines performance attributes and eliminates unwanted variation of outputs (van de Kaa, 2023). SPM 1, SMM 1, and SMM 2 act mostly as quality standards as they define organizational characteristics that should ensure high quality engagement. Nonetheless, the standardizing role of these standards changes over time.

SPM 1 standardizes the presence of specific policies and procedures to a large extent in six areas. SMM 1 and SMM 2 maintain the same objectives and the same set of minimum requirements but leave it to the organization to develop the system design and formalization depending on the nature of the organization and of its work. From such a standpoint, the shift is the move from standardized procedures to standardized quality objectives, principles of governance, and risk management procedures. The destination point is still the same engagement quality but the path towards it is more flexible and firm-dependent (David & Greenstein, 1990; Botzem & Dobusch, 2012; van de Kaa, 2023).

Quality Management Theory

Classical Quality Management Theory highlights the importance of embedding quality in organizational processes instead of inspecting it once processes have been completed. According to

Deming (1986), quality improvement involves systems thinking, management, feedback, learning, and continuous improvement. Similarly, Juran (1988) highlights quality planning, quality control, and quality improvement and stresses that quality goals need to be embedded in processes, resources, responsibilities, and corrective actions.

These concepts bring out the architecture of SMM 1 and SMM 2. Quality goals and risk assessment make up preventive quality planning; engagement performance and required actions constitute quality control; and monitoring, deficiency analysis, root cause analysis, corrective action, and annual system review form the quality improvement loop. The segregation of engagement quality review in SMM 2 ensures the incorporation of engagement-level objective evaluation without shifting management responsibility and accountability of the engagement partner (Deming, 1986; Juran, 1988; IAPI, 2024a, 2024b).

It follows that Quality Management Theory serves to complement Standardization Theory. Standardization Theory helps us understand how expectations become common among firms, whereas Quality Management Theory enables us to understand how the organizational system inside an organization turns such common expectations into prevention, integration, feedback, learning, and improvement. Both theories are useful for understanding SMM 1 and SMM 2 as standards and systems of management.

Research Methodology

This study adopts qualitative comparative documentary analysis using a configurational perspective. The principal units of analysis are SPM 1, SMM 1, and SMM 2 as official documentary expressions of successive regulatory architectures for audit quality governance in Indonesia. Documentary analysis is appropriate because professional standards codify institutional expectations, organizational responsibilities, decision processes, and required safeguards that can be systematically compared across time (Bowen, 2009).

The configurational perspective is used as an interpretive logic rather than as a statistical or set-theoretic QCA procedure. The study does not perform case calibration, truth-table construction, consistency or coverage calculations, or tests of necessity and sufficiency. Instead, configurational reasoning is used to examine how combinations of governance, ethics, acceptance, resources, risk assessment, responses, information, monitoring, remediation, and engagement quality review form distinct quality-management architectures (Ragin, 1987; Schneider & Wagemann, 2012).

Primary evidence was extracted from the authoritative Indonesian standards. SPM 1 provides the baseline quality-control configuration. SMM 1 provides the firm-level quality-management configuration, including the risk-assessment process and eight interrelated components. SMM 2

provides the dedicated engagement quality review configuration. Official IAASB standards and first-time implementation guides, together with IFAC implementation materials, were used as supplementary interpretive sources where they clarified the intended movement from quality control to quality management (IAASB, 2020a, 2020b, 2021a, 2021b; IFAC, 2022, 2023, 2024).

Analysis proceeded through four stages. First, open coding identified substantive requirements and concepts in each standard. Second, axial coding grouped the open codes into governance and leadership, ethical requirements and independence, acceptance and continuance, engagement performance, resource management, quality objectives, quality risks, responses, information and communication, monitoring and remediation, and engagement quality review. Third, comparative mapping classified each change as retained, expanded, new, reorganized, or conceptually transformed. Fourth, configurational interpretation examined how the interaction among components changed the overall logic of quality governance (Miles et al., 2020; Saldaña, 2021).

Trustworthiness was supported through repeated reading, maintenance of a comparison matrix, cross-checking of extracted requirements against the official standards, and negative-case consideration where apparently new requirements had antecedents in SPM 1. This process separates authentic conceptual transformation from mere repositioning or further refinement of pre-existing standards. This analysis is still interpretive and documentary; it does not evaluate implementation or audit results (Bowen, 2009; Lincoln & Guba, 1985).

The analytical coding structure is summarized in Table 1.

Open codes	**Axial category**
Leadership responsibilities; quality culture; accountability	Governance and leadership
Ethical requirements; independence; breaches	Ethics and independence
Client integrity; competence; acceptance decisions	Acceptance and continuance
Direction; supervision; review; consultation; differences of opinion	Engagement performance
Human, technological, intellectual, and external resources	Resource management

Open codes	**Axial category**
Quality objectives; quality risks; risk assessment; responses	Quality risk management
Internal and external information flows	Information and communication
Monitoring; findings; deficiencies; root causes; remediation	Monitoring and remediation
Appointment; eligibility; objectivity; procedures; completion; documentation	Engagement quality review

Table 1. Coding structure used in the documentary comparison.

4. Results and Discussion

4.1 Transition from Quality Control to Quality Management: A Paradigm Shift

This analysis clearly proves that SMM 1 and SMM 2 are actually shifting paradigms and not changes in terminology. The system of quality control under SPM 1 consists of the policies and procedures related to six elements and the organization has to create, implement, document, and communicate those controls. SPM 1 has been designed based on an elemental approach; in other words, quality will be ensured through creating the necessary policies and procedures related to leadership, ethics, acceptance, human resources, engagement performance, and monitoring (IAPI, 2013). SMM 1 retains many of these subject areas but reconstructs them within a system whose explicit purpose is to provide reasonable assurance that the firm and its personnel fulfill professional responsibilities and that engagement reports are appropriate in the circumstances. The new architecture is objective-driven and dynamic because the firm must design, implement, and operate a system responsive to its own nature and circumstances (IAPI, 2024a).

The philosophical difference is most visible in the relationship between requirements and firm action. Under SPM 1, the standard directly specifies the principal policy and procedure domains. Under SMM 1, the standard establishes quality objectives and requires the firm to identify and assess the risks that may prevent those objectives from being achieved. The firm then designs and implements responses based on the reasons underlying its risk assessments. It must also identify information indicating that additional or modified objectives, risks, or responses are needed when the firm or its engagements change (IAPI, 2013; IAPI, 2024a). Accordingly, the new framework is not

less standardized; it standardizes the management process by which each firm translates common quality objectives into context-specific controls.

This transformation changes the temporal orientation of quality governance. SPM 1 contains preventive controls, including acceptance procedures, consultation, supervision, and engagement quality review, and therefore should not be characterized as exclusively reactive. Nevertheless, its monitoring architecture is principally concerned with evaluating whether the quality-control system is adequate and operating effectively. The SMM 1 takes prevention to the heart of system design in terms of the prospecting of identification and assessment of quality risks prior to the emergence of problems. Monitoring is vital, but it represents just one step in a cycle that starts from objectives and risks and ends with the remedy, reassessment, and yearly evaluation (IAPI, 2013; IAPI, 2024a). It is the main reason to describe the process as proactive rather than mere compliance.

From the standpoint of Standardization Theory, this change is reflected in the shift of the object of standardization. The SPM 1 largely standardizes certain procedures and control domains. In contrast, SMM 1 standardizes quality objectives, principles of governance, logic of risk assessment, minimal measures, criteria for evaluation, and expectations regarding documentation in terms of letting the system be detailed to some extent. This implies comparability alongside with adaptability, as companies remain responsible for the common results and processes, but the level of complexity, formality, and size of systems can vary depending on the characteristics and engagement portfolios of companies (David & Greenstein, 1990; Botzem & Dobusch, 2012; van de Kaa, 2023; IAPI, 2024a).

This transition also represents the Quality Management Theory as quality is viewed in terms of a management system as opposed to a series of controls. Governance establishes the environment; objectives and risks guide planning; resources and information enable execution; specified and tailored responses operationalize control; monitoring identifies performance information; root-cause analysis and remediation support learning; and annual evaluation closes the management cycle. This structure corresponds to the quality-planning, quality-control, and quality-improvement functions described by Juran and to Deming's emphasis on management responsibility, feedback, systems thinking, and continuous improvement (Deming, 1986; Juran, 1988; IAPI, 2024a).

The research gap identified in the Introduction is therefore answered at both conceptual and structural levels. Conceptually, the standards move from quality control as a set of predefined organizational safeguards toward quality management as an adaptive governance process. Structurally, the new framework adds a formal risk-assessment process, information and communication, broader resource categories, explicit deficiency evaluation and root-cause

remediation, annual system evaluation, and a separate engagement quality review standard. The combined effect is a quality-management configuration in which no component can be understood independently of the others (IAPI, 2013; IAPI, 2024a, 2024b).

4.2 Transformation of Quality Governance and Leadership

SPM 1 places overall responsibility for quality on the firm's leadership and requires policies and procedures supporting an internal culture that recognizes the importance of engagement quality. It is also necessary that the person having operational responsibility for the quality-control system should have adequate experience, capability, and authority (IAPI, 2013). These provisions establish leadership responsibility, but they do not articulate governance as a distinct component containing multiple quality objectives, organizational structures, resource commitments, and differentiated accountability roles.

SMM 1 expands leadership responsibility into a governance architecture. The firm must assign ultimate responsibility and accountability for the system of quality management to the firm's chief executive, managing partner, or equivalent governing body; assign operational responsibility for the system; and separately assign operational responsibility for independence and monitoring and remediation. Individuals appointed to these roles must have appropriate experience, knowledge, influence, authority, and sufficient time, and operational role holders must have a direct line of communication to the person with ultimate accountability (IAPI, 2024a). Accountability is therefore not merely symbolic; it is linked to defined roles, competence, authority, communication, and periodic performance evaluation.

The governance component also makes quality culture an explicit management objective. The firm must demonstrate commitment to quality throughout the organization by recognizing its public-interest role, the importance of ethics and professional values, the responsibility of all personnel for quality, and the importance of quality in strategic decisions, including financial and operational priorities. Leadership must demonstrate that commitment through actions and behavior, while the organizational structure and resource planning must be consistent with the firm's quality commitment (IAPI, 2024a). This requirement prevents quality from being confined to technical departments and positions it as a criterion for strategy, budgeting, incentives, and daily conduct.

This theoretical implication is the change from viewing leadership as an entity that owns a control system into one that designs and manages the environment for quality management. Standardization has shifted away from the point of allocating responsibilities and has now standardized the governance practices within which leaders have to make quality visible through decisions and behaviors in ways that permit the company to organize roles depending on their size. From the

perspective of quality management, the senior management is responsible for the system that creates quality, as argued by Deming in his theory that the problem of consistent quality issues cannot be fixed by inspection of individual outputs (Deming, 1986; IAPI, 2024a).

In terms of practical implications for public accounting firms, the policy manual is not sufficient as proof of compliance if the firm's commercial interests, its partners' evaluations, resource allocations, or investments do not conform to quality management principles. Proof of implementation must include the allocation of roles, means of communication, resource allocations, performance reviews, and behaviors of the leadership (IAPI, 2024a).

4.3 Quality Risk Management as the Core Transformation

The risk assessment process of the firm is the essential conceptual change of SMM 1. SPM 1 recognizes that some firms might need additional policies and procedures due to the reason that not all situations can be expected, but it does not provide a sequential connection between the quality objectives, quality risks, risk assessment, and appropriate responses. SMM 1 precisely asks for such a connection. The firm sets the quality objectives defined in the standard and any other objectives required to fulfill the purpose of the system and then assesses the risks to those objectives and plans its response according to the reasons for making those assessments (IAPI, 2013; IAPI, 2024a).

Quality objectives refer to the ideal state within an organization. These include good leadership and culture, good ethical compliance, proper client acceptance, good quality performance of engagements, sufficient resources, good communication, and proper monitoring and correction. Quality risks are not general business risks but rather any condition, event, circumstance, action, or omission with a likelihood of having a negative impact on one or more quality objectives. When identifying and evaluating quality risks, it is important for the organization to consider its complexity, nature of operation, strategy, business model, leadership approach, resources, regulation, networks, engagement type, reports, and clients (IAPI, 2024a).

The response requirement creates a disciplined link between diagnosis and action. A response is not adequate merely because it appears in a policy manual or mirrors a generic template. Its nature, timing, and extent must be based on and responsive to the reasons for the assessed quality risk. SMM 1 also prescribes specified responses, including annual independence confirmations, procedures for ethical breaches and complaints, responses to post-acceptance information, external communication in specified circumstances, and engagement quality reviews for defined or risk-responsive engagements (IAPI, 2024a). The architecture therefore combines firm-specific judgment with non-negotiable minimum safeguards.

This combination illustrates the changed logic of standardization. Common objectives and specified responses preserve comparability across firms, while tailored risk assessment and responses preserve relevance. A small firm with a limited engagement portfolio may have a less complex and less formal system than a large network firm auditing listed entities, but both must be able to explain how their systems address the risks arising from their actual circumstances. Scalability does not permit omission of applicable objectives; it permits proportionate design and documentation (IAPI, 2024a; IAASB, 2021a; IFAC, 2022, 2023).

Risk-based design also imposes a responsibility of continuous adaptation. The firm needs to have procedures for identifying information indicating the need for new or different quality objectives, risks, or responses because of any changes to its circumstances or engagements. It stops the process from being static after the first set of policies or procedures was developed. New technologies, service offerings, client industries, personnel models, network applications, legal changes, inspection results, and recurring engagement issues may call for a rethink (IAPI, 2024a). From the perspective of the quality management, planning becomes a continuous activity rather than a one-time compliance exercise.

The problem that comes with this is that risk assessment may become a mere paper game for firms if they use generic risk register without linking to their circumstances. Such a system should be able to explain the reason why the risk may occur, the quality objective it will impact, how the response deals with the causality, who owns the response, the evidence of execution, and how monitoring measures the effectiveness. All those factors are key to the annual decision about whether the system assures that its objectives have been achieved (IAPI, 2024a).

Quality risk management is therefore the main distinction between the former and current frameworks. It converts professional requirements into a firm-specific governance model and connects leadership, resources, engagement execution, and monitoring through an explicit theory of how quality could fail and how failure will be prevented or corrected. This reflects preventive management and quality planning under Juran's framework and supports organizational learning under Deming's improvement cycle (Deming, 1986; Juran, 1988; IAPI, 2024a).

4.4 Transformation of Resources, Information, and Communication

SPM 1 treats human resources as a core element and requires sufficient personnel with appropriate competence, capabilities, and commitment to ethical principles, together with appropriate assignment of engagement teams. Those requirements remain important under SMM 1, but resource governance is significantly expanded. SMM 1 addresses the acquisition, development, implementation, maintenance, allocation, and timely provision of human, technological, and

intellectual resources, including resources obtained from networks, other firms, and external service providers (IAPI, 2013; IAPI, 2024a).

Identification of technological resources acknowledges the present audit environment. Audit platforms, analytical tools, automation, access control mechanisms, workflow, communication applications, and information storage facilities may result in quality, but at the same time, they may pose a risk to the quality where they are poorly designed, insufficiently maintained, incorrectly configured, or utilized by unskilled personnel. Hence, SMM 1 stipulates the acquisition and development, implementation, maintenance, and utilization of appropriate technology for the operation of the system and performance of engagements (IAPI, 2024a). Technological resources are no longer implicit in the system but become a regulated aspect of quality management.

Similarly, intellectual resources make the system extend its scope to include resources beyond personnel. Methodologies, templates, guidelines, manuals, industry experience, consultation materials, and standardized instruments shall be appropriate, maintained, utilized and consistent with professional standards and relevant legislation. In case the resources are provided by a network or outside service provider, the entity has to ensure their appropriateness, while remaining accountable for its own system of quality management. Outsourcing does not shift the responsibility (IAPI, 2024a). This becomes especially significant for small practices which depend on outsourced methodologies, cloud-based services, specialists, and shared personnel.

Information and communication constitute a new, separate component. The firm's information system must identify, capture, process, and maintain relevant and reliable information from internal and external sources. The culture must reinforce personnel responsibility to exchange information, and information must flow both from the firm to engagement teams and from personnel and teams back to the firm. Relevant information must also be communicated to networks, service providers, those charged with governance, regulators, and other external parties when required or appropriate (IAPI, 2024a).

The theoretical significance is process integration. Resources do not create quality unless reliable information enables them to be selected, allocated, and used in response to quality risks. Likewise, risk assessment cannot remain current without feedback from engagements, complaints, inspections, technology incidents, independence systems, and monitoring activities. The resource and communication components therefore function as the infrastructure of adaptive quality responses and organizational learning (Deming, 1986; Juran, 1988; IAPI, 2024a).

4.5 Monitoring, Deficiencies, and Remediation

SPM 1 requires firms to establish monitoring policies and procedures designed to provide reasonable assurance that the quality-control system is relevant, adequate, and operating effectively. Monitoring includes ongoing consideration and periodic inspection of completed engagements, including cyclical selection of at least one completed engagement for each engagement partner. Deficiencies must be evaluated and communicated, and remedial action must be taken where appropriate (IAPI, 2013). SPM 1 therefore contains a meaningful monitoring foundation rather than a purely engagement-level inspection model.

SMM 1 retains inspection of completed engagements but embeds it in a more explicit monitoring and remediation process. Monitoring activities are designed to provide relevant, reliable, and timely information about the design, implementation, and operation of the system and to provide a basis for identifying deficiencies. Their nature, timing, and extent must consider assessed quality risks, the design of responses, changes in the system, results of prior monitoring, effectiveness of prior remediation, complaints, allegations, external inspection information, and information from service providers (IAPI, 2024a). Monitoring is consequently risk-responsive rather than only cyclical.

A major expansion is the formal distinction among findings, deficiencies, root causes, and remedial actions. Findings are information that may indicate one or more deficiencies. The firm must evaluate findings to determine whether deficiencies exist, assess their severity and pervasiveness, investigate root causes, and evaluate their individual and aggregate effects on the system. Remedial actions must respond to the identified deficiency and its root cause, and the person responsible for monitoring and remediation must evaluate whether the actions were appropriately designed, implemented, and effective (IAPI, 2024a).

This process makes monitoring turn into a learning activity. An ongoing mistake in documenting can be caused by workload stress, poor methodology, poor supervision, lack of training, bad performance incentives, or a technological problem. Treating each instance as isolated noncompliance would not correct the system. Root-cause analysis requires the firm to identify the underlying configuration that allowed the problem to recur and to design remediation capable of changing that configuration (IAPI, 2024a). This reflects Deming's distinction between correcting an individual defect and improving the system that produces defects (Deming, 1986).

SMM 1 also requires the individual with ultimate responsibility and accountability to evaluate the system at least annually and conclude whether it provides reasonable assurance that its objectives have been achieved, whether significant but non-pervasive deficiencies exist, or whether reasonable assurance is not provided. When the latter conclusions are reached, the firm must take prompt action

and communicate appropriately. The firm must also periodically evaluate the performance of those responsible for the system, considering the annual system evaluation (IAPI, 2024a).

The complete configuration - monitoring, finding evaluation, deficiency identification, root-cause investigation, remediation, effectiveness assessment, communication, and annual evaluation - institutionalizes a feedback loop. Quality management becomes self-correcting only when information from performance is used to redesign objectives, risks, responses, resources, and governance. This is the clearest manifestation of continuous improvement and organizational learning in the new framework (Deming, 1986; Juran, 1988; IFAC, 2024; IAPI, 2024a).

4.6 Engagement Quality Review: The Role of SMM 2

SPM 1 incorporates engagement quality control review within the engagement-performance element. It requires reviews for audits of listed entities and for other engagements meeting firm-established criteria, prohibits dating the report before completion of the review, specifies review procedures concerning significant judgments and the proposed report, and includes requirements concerning reviewer qualifications, objectivity, replacement, and documentation (IAPI, 2013). SMM 2 therefore does not create engagement quality review from nothing; it reorganizes and substantially expands an existing safeguard.

The issuance of a separate standard changes the institutional status of the review. SMM 1 determines the engagements for which a review is required as a specified or risk-responsive response, while SMM 2 governs how the review is appointed, performed, completed, and documented. This separation clarifies the interface between the firm's system of quality management and the objective evaluation of significant engagement judgments (IAPI, 2024a, 2024b). It also makes engagement quality review a distinct safeguard with its own accountability structure rather than a subsection of engagement performance.

The criteria for reviewers' eligibility have been better spelled out. The company needs to set out policies or procedures for appointing a reviewer who has the capability, skills, including adequate time, and the right level of authority to undertake the review process; who conforms to ethical considerations, including those relating to threats to the integrity and independence of the reviewer; and who complies with any relevant law or regulation. The second Standard for the Management of Members (SMM 2) spells out the criteria for the eligibility of assistants, responsibility of the reviewer, when the reviewer's eligibility may be compromised, termination, and appointment of substitute (IAPI, 2024b).

The performance requirements emphasize timely involvement and professional judgment. The reviewer must understand relevant information from the engagement team and the firm's monitoring

and remediation process, discuss significant matters and judgments, review selected documentation, evaluate the basis for significant judgments and conclusions, consider professional skepticism where applicable, evaluate independence and consultation matters, and review the financial statements or subject matter information and proposed report. If concerns are not satisfactorily resolved, the reviewer must escalate the matter and cannot complete the review (IAPI, 2024b). The engagement partner may not date the report until notified that the review is complete.

SMM 2 strengthens reviewer objectivity without confusing review with shared engagement responsibility. The reviewer evaluates significant judgments and conclusions but does not become a member of the engagement team and does not replace the engagement partner's responsibility for direction, supervision, review, judgments, conclusions, and the report. Excessive consultation by the team can itself threaten reviewer objectivity and must be addressed through firm policies or procedures (IAPI, 2024b). The safeguard is therefore based on informed challenge and objective evaluation, not co-performance of the engagement.

Documentation is also more informative than the former minimum confirmation. It must enable an experienced practitioner with no previous connection to understand the nature, timing, and extent of the review procedures and the conclusions reached. It must state who conducted the review and who were the assistants, the documents related to the engagement that were reviewed, the grounds for determining completion, notification requirements, and the date of completion (IAPI, 2024b).

SMM 2 provides, from the point of view of standardization, international comparable minimum conditions for conducting a good review without taking away from the decision-making of what documentation and issues to look at. From the point of view of quality management, the review is a preventive and detective control linked to governance, ethics, monitoring information, professional judgment, and reporting. Therefore, its effectiveness depends not only on the reviewer's skill but on the surrounding system (Botzem & Dobusch, 2012; Juran, 1988; IAPI, 2024a, 2024b).

4.7 Configurational Analysis of the New Quality Management System

Configurational approach demonstrates that the system cannot be summarized in the form of an independent set of requirements. There are four elements of configuration: leadership, quality goals, quality risk assessment, and response. Leadership provides the culture, power, and means needed for quality; quality goals represent a state that should be reached; quality risk assessment determines potential failure paths; and response is a link between the analysis and preventive or corrective actions. The resulting configuration brings proactive quality management, while the lack of any of the four components makes it weaker. Quality goals without leadership stay utopian, quality risks

without response remain descriptive, and responses without causal analysis may turn into checklists (IAPI, 2024a).

The second structure involves ethics, acceptance and continuance, and engagement performance. The compliance with ethics and independence determines if the firm and staff members are capable of being objective. The acceptance and continuance process determines if the firm should take on or keep the engagement and if it has the capability and competencies to do the job. The engagement performance requirements transform the prerequisites into instructions, supervision, review, consultations, differences resolutions, documentation, and reporting. These elements enable reliable audit process execution (IAPI, 2013; IAPI, 2024a).

The third structure includes the resource, information, and communication structure. Competence of people is not enough if there is not enough methodology, technology, data, experts, or time. On the other hand, resources cannot be managed properly without having proper information that is communicated. The interplay between personnel, technology, and intellectual resources, service providers, information systems, and internal and external communication makes it possible for the firm to adapt to changes of engagement and firm conditions (IAPI, 2024a).

The fourth model consists of monitoring, deficiency evaluation, root cause analysis, remediation, and reassessment. Monitoring produces observations; evaluation discriminates between individual observations and system deficiencies; root cause analysis finds the causes of those deficiencies; remediation modifies the system; and monitoring evaluates whether the modification works. Continuous improvement through such a model can be achieved only through feeding information into risk assessment, resource allocation, policy setting, and leadership assessment (Deming, 1986; Juran, 1988; IAPI, 2024a).

The fifth model includes governance, professional judgment, and engagement quality review. Governance establishes the circumstances under which a review is needed and ensures that there is an eligible, objective reviewer with sufficient time and power to conduct the review. Professional judgment determines what issues require evaluation. SMM 2 organizes the process of challenge, escalation, completion, and documentation of the process. Such a combination improves safeguards at the level of engagement, but the review itself cannot overcome deficiencies of the engagement team, weak ethical culture, insufficient resources, and monitoring (IAPI, 2024a, 2024b).

In this case, there is a manifestation of the concept of causally related systems at the conceptual rather than statistically necessary or sufficient stage. The documentary evidence supports the interpretation that quality of audit is supposed to be achieved through a coordinated system of interdependent elements. None of the components produces quality on its own and good performance

in one element does not automatically compensate for the serious shortcomings in other elements. That is why SMM 1 needs to assess deficiencies both individually and collectively to reach conclusions about the whole system (IAPI, 2024a).

On the whole, the new framework introduces a standardized approach to adaptive management architecture. The importance of the introduction of such framework is not only in introducing new requirements but in making firms to restructure the way they link objectives, risks, people, technologies, information, judgments, feedback, and accountability. The configuration maintains international and national comparability, but forces companies to develop a relevant system according to their own circumstances. It is the essence of the shift from quality control to quality management (David & Greenstein, 1990; Botzem & Dobusch, 2012; van de Kaa, 2023; Deming, 1986; Juran, 1988).

Table 2 summarizes the principal changes across the analytical categories.

Analytical category	**SPM 1 baseline**	**SMM 1/SMM 2 transformation**	**Nature of change**
Governance and leadership	Leadership responsible for overall quality; operational responsibility requires experience, ability, and authority.	Distinct governance component; ultimate and operational accountability; direct reporting lines; culture, strategy, resources, and performance evaluation.	Expanded and conceptually transformed
Ethics and independence	Policies and procedures for ethical compliance, independence communication, threats, breaches, and annual confirmation.	Quality objectives plus specified responses; broader integration with networks, providers, information flows, and assigned operational responsibility.	Retained and expanded
Acceptance and continuance	Client integrity, competence, capabilities, resources, and ability to comply with ethical requirements.	Quality objectives address judgments, priorities, financial considerations, and post-acceptance information within risk-based design.	Retained and integrated

Analytical category	**SPM 1 baseline**	**SMM 1/SMM 2 transformation**	**Nature of change**
Engagement performance	Direction, supervision, review, consultation, differences of opinion, EQR, and engagement documentation.	Quality objectives integrated with risk assessment, resources, information, consultation, judgment, skepticism, and specified EQR response.	Retained, expanded, and reorganized
Resources	Human resources only as a named component.	Human, technological, intellectual, and external service-provider resources; planning, acquisition, maintenance, allocation, and use.	Expanded
Quality objectives and risks	No formal objective-risk-response process.	Mandatory quality objectives; firm-specific additional objectives; risk identification and assessment; tailored and specified responses.	New and conceptually transformative
Information and communication	Communication of quality-control policies and selected information requirements.	Separate component covering information systems, internal two-way communication, and external communication.	New and expanded
Monitoring and remediation	Ongoing monitoring, inspection, deficiency communication, and corrective action.	Risk-responsive monitoring; findings, deficiencies, severity/pervasiveness, root causes, remediation effectiveness, and annual system evaluation.	Expanded and conceptually transformed
Engagement quality review	Embedded within engagement performance; criteria, procedures, reviewer eligibility/objectivity,	SMM 1 determines applicability; SMM 2 separately regulates appointment, eligibility, objectivity, assistants, performance, escalation, completion, and documentation.	Reorganized and expanded

Analytical category	**SPM 1 baseline**	**SMM 1/SMM 2 transformation**	**Nature of change**
	completion, and documentation.		
Scalability	Implicit consideration of varied circumstances and additional procedures.	Explicit proportionality based on firm and engagement nature and circumstances; variation in complexity and formality.	Explicitly expanded

Table 2. Comparative summary of the transition from SPM 1 to SMM 1 and SMM 2.

Source: Author's documentary comparison based on IAPI (2013, 2024a, 2024b).

Conclusions

The purpose of this research was to identify the shifts in terms of concepts and structure introduced by SMM 1 and SMM 2 and to analyze their impact on the management of audit quality relative to SPM 1. As is evident from the comparative qualitative documentary analysis, SMM 1 and SMM 2 mark a paradigm shift, although it would be wrong to interpret this change in terms of complete renunciation of the old concept. The SPM 1 included key preventive mechanisms, such as ethics and independence, acceptance of clients, competent engagement teams, supervision, consultation, engagement quality review, monitoring, and corrective action. However, SMM 1 and SMM 2 incorporate these mechanisms into an objectives-driven, risk-based, adaptive, and ongoing quality management system.

Quality risk management is a key transformation. According to SPM 1, the company formulated policies and procedures regarding certain quality control components. In accordance with SMM 1, the company should formulate specific quality objectives, risks endangering such objectives and develop responses considering rationale for such analysis. Thus, there emerges a direct analytical link between the organizational situation and quality risks, responses, monitoring and system assessment. An obligation to review objectives, risks, and responses as soon as situations changes ensures that the system does not remain static and makes prevention a basic principle of quality governance (IAPI, 2024a).

Governance also gets transformed. Leadership role includes ultimate and operational accountability, direct lines of communication, quality culture, strategic and financial commitment, organizational structure and regular performance evaluations. Resources get broader as they cover

not just personnel but also human, technological, intellectual and external resources. Information and communication become a separate component which serves for creation of two-way internal communication and relevant external communication. Such transformations take into account the fact that engagement quality is created by means of organizational decisions about people, time, processes, technology, information, motivation and authority, not just technical audit procedures (IAPI, 2024a).

Monitoring becomes a learning and continuous improvement process. SMM 1 differentiates between findings and deficiencies, calls for the evaluation of severity and pervasiveness, requires investigation of the cause, and requires actions for remedying the situation that are designed, implemented, and their effectiveness evaluated. The one who has ultimate responsibility must evaluate the system on an annual basis and determine whether it offers reasonable assurance that its objectives have been met. Thus, monitoring provides feedback not only for corrections at the engagement level but also for the improvement of the system that delivers the engagement quality (Deming, 1986; Juran, 1988; IAPI, 2024a).

SMM 2 enhances engagement quality controls through separating engagement quality review out as a specific standard. Changes are made concerning such issues as reviewer appointment, eligibility, objectivity, use of assistants, timely execution, significant judgment evaluation, escalation, completion, and documentation. The review is still an objective assessment and does not shift engagement partner's responsibility. Its effectiveness depends on the overall quality management system which includes such aspects as governance, ethics, resources, monitoring information, and willingness to support challenge (IAPI, 2024a, 2024b).

There are two aspects in which the theoretical contributions can be made through the application of SMM 1 in the firms. First, the idea of the standardization theory is broadened to suggest that the target of standardization can move from the procedures that should be standardized to goals, governance practices, risk management and minimal guarantees. Thus, SMM 1 allows the creation of a variety of different systems in different organizations in terms of complexity and formality without changing the common expectations about the expected results and quality management procedures in place. This is called adaptive standardization and not deregulation (David & Greenstein, 1990; Botzem & Dobusch, 2012; van de Kaa, 2023). Secondly, the theory of quality management explains how the standards connect planning, controlling, feedback, learning, and improvement in one organizational cycle.

The implications in terms of practice will vary based on the stakeholder perspective. Public accounting firms must approach implementation as an issue of system design, rather than just

modifying existing procedures, where relationships between context, objectives, risk, response, evidence, monitoring, and remediation are clear. IAPI may help ensure uniform implementation through the use of examples tailored to particular industries, tools that scale the process, training in root cause analysis, and feedback during inspections where the distinction is made between design and operational failure. The regulators can ensure that inspections are conducted using a risk-based and systemic framework, without creating incentives for a mere checklist approach to compliance. The auditor practitioners must understand that they act as information suppliers and quality owners within the system.

This paper has some weaknesses. It is a purely document analysis approach with no interviews, observations, firm case studies, inspection reports, nor any measure of the audit quality itself. The results are based on description and interpretation of the architecture as intended by the standards, and it makes no comment about how well that architecture will be implemented and how successful such an implementation will be at improving the audit process. Configurational analysis is theoretical and interpretative and is done without use of statistical QCA. In the future, there should be research on implementation of the approach through interviews and case studies, difference in approaches between small and big firms, analysis of inspections and their results, examination of impact of technology and third-party service providers, and longitudinal research of changes in the system after the effective date.

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Author's contribution

The single author conceptualized, collected documentary evidence, coded the data, conducted comparative analysis, interpreted findings, prepared the manuscript, and approved the article.

Availability of data and material

The main documents analyzed in this study are publicly available professional standards developed by IAPI and IAASB.

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