
EXPOSURE DRAFT

PROPOSED STATEMENT ON STANDARDS FOR TAX SERVICES

QUALITY CONTROL

December 30, 2005

Prepared by the Tax Executive Committee

Comments should be received by August 31, 2006, and addressed to
Edward S. Karl, Director, AICPA Tax Division,
1455 Pennsylvania Avenue, NW, Washington, DC 20004-1081, File SSTS 9,
or via the Internet to ekarl@aicpa.org.

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December 30, 2005

Accompanying this letter is an exposure draft of a proposed Statement on Standards for Tax Services, *Quality Control*. A Foreword to the proposed Statement is included in that document.

After the exposure period is concluded and the comments have been evaluated by the Tax Executive Committee, the committee **may** decide to publish the proposed Statement. At this time, the Tax Executive Committee intends that the proposed Statement become effective June 30, 2007.

Your comments are an important part of the standard-setting process. In particular, comments are specifically requested with regard to the proposed Statement's applicability to members in industry. (The existing Statements on Standards for Tax Services are applicable to all AICPA members, including members in industry.) Please take this opportunity to comment.

Responses must be received at the AICPA by August 31, 2006. All written replies to this exposure draft will become part of the public record of the AICPA and will be available for public inspection at the offices of the AICPA after August 31, 2006, for one year. Responses should be sent to Edward S. Karl, Director, AICPA Tax Division, 1455 Pennsylvania Avenue, NW, Washington, DC 20004-1081, File SSTS 9, in time to be received by August 31, 2006. Responses may also be sent by electronic mail to ekarl@aicpa.org.

Sincerely,

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SSTS Quality Control Task Force

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Tax Practice Responsibilities Committee

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FOREWORD

The concept of quality control has always been the backbone of every CPA firm. This is evidenced by the long-standing and well-established principles outlined in Statement of Quality Control Standards No. 2, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice* (AICPA, *Professional Standards*, vol. 2, QC sec. 20), as amended, including the five elements of quality control that apply to accounting and auditing practices. This Statement on Standards for Tax Services (SSTS) is based on these sound principles.

Since the adoption of the SSTSs by the AICPA Tax Executive Committee (TEC) in 2000, some members have expressed concern over the lack of a quality control standard to guide them in implementing the original eight standards into their tax practice or function. Although the Tax Division did address this concern by publishing its *Tax Practice Quality Control Guide* in 2002, the recent changes to Treasury Department Circular No. 230, in particular section 10.33, "Best Practices," and section 10.36, "Procedures to Ensure Compliance," highlighted the need for a standard to provide additional guidance to help members be responsive to the rapid changes and complexity of our tax system. When coupled with the recently heightened penalty and sanction authority granted to the IRS Office of Professional Responsibility, the TEC believed exposure of this proposed SSTS was critical.

The SSTSs have been written in as simple and objective a manner as possible. However, by their nature, ethical standards provide for an appropriate range of behavior that recognizes the need for interpretations to meet a broad range of personal and professional situations. The SSTSs recognize this need by, in some sections, providing relatively subjective rules and by leaving certain terms undefined. These terms and concepts are generally rooted in tax concepts and therefore should be readily understood by tax practitioners. It is, therefore, recognized that the enforcement of these rules, as part of the AICPA's Code of Professional Conduct Rule 201, *General Standards* (AICPA, *Professional Standards*, vol. 2, ET sec. 201.01), and Rule 202, *Compliance With Standards* (AICPA, *Professional Standards*, vol. 2, ET sec. 202.01), will be undertaken with flexibility in mind and handled on a case-by-case basis. Members are expected to comply with them.

PROPOSED STATEMENT ON STANDARDS FOR TAX SERVICES Quality Control

Introduction

1. This Statement sets forth the applicable standards for members concerning the obligation to have a system of quality control for their tax practice (public practice) or function (nonpublic practice). In light of the fact that members practice in various forms, or with various size employers, and therefore cannot take personal responsibility for every aspect of such tax practice or function, there has arisen a need for a Statement on what constitutes an adequate system of quality control in a tax practice or function to enhance compliance with the other aspects of the Statements on Standards for Tax Services (SSTSS). For purposes of this Statement, a *system of quality control* is broadly defined as a process to provide the member with reasonable assurance that the *firm* (public practice) or *employer's* (nonpublic practice) *personnel* (for purposes of this Statement, the term *personnel* includes partners, officers, employees, and other associates of the tax practice or function) comply with applicable professional standards.

Statement

2. In general, a member's firm or employer should establish and maintain for its tax practice or function a system of quality control that includes the five elements of quality control (detailed in paragraph 4 and others that follow) and other matters essential to the effective design, implementation, and maintenance of the system. A member providing tax services is encouraged to practice in a firm or work for an employer that has established and maintains an adequate system of quality control for its tax practice or function. However, it is the responsibility of the member(s) in-charge of such tax practice or function to ensure an appropriate system of tax practice quality control is implemented.

3. A system of quality control for a tax practice or function should encompass the organizational structure and the policies adopted and procedures established to provide reasonable assurance that such tax practice or function is in compliance with professional standards. The nature, extent, comprehensiveness, and formality of a tax practice or function's quality control policies and procedures may vary due to considerations such as the size of the tax practice or function, the number of offices, the degree of authority granted to personnel and offices, the knowledge and experience of personnel, the nature of the tax practice or function, the practice area(s) or area(s) of specialty and appropriate cost-benefit considerations. While this Statement is applicable to all members, including members in industry, it must be recognized that each system of quality control must take into account the unique aspects of the tax practice or function, especially with regard to those members providing tax services to employers.

4. *Elements of Quality Control.* To be effective, any system of tax practice quality control should contain policies and procedures covering the following five elements:

- a. Integrity and objectivity
- b. Personnel management
- c. Acceptance and continuance of clients and engagements (public practice only)
- d. Performance of professional services
- e. Monitoring and inspection

Explanation

Integrity and Objectivity

5. In a tax practice or function, the member and his or her personnel often act as an advocate for the taxpayer. The member and his or her personnel should seek to advocate with integrity and objectivity the taxpayer's position as long as that position and their efforts are in compliance with the AICPA Code of Professional Conduct, including the SSTs (see SST No. 1, *Tax Return Positions* [AICPA, *Professional Standards*, vol. 2, TS sec. 100.04]) and applicable federal, state, and local laws. In addition, a member in public practice should consider the applicability, if any, of auditor independence issues to his or her practice; see Rule 2-01 of Regulation S-X, Preliminary Note, 17 CFR 210.2-01. In fulfilling this role, the member is encouraged to practice in a firm or work for an employer that has established and maintains policies and procedures to provide reasonable assurance that personnel perform all professional responsibilities with integrity, and maintain objectivity in discharging his or her professional responsibilities. Integrity requires the member and his or her personnel to be honest and candid within the constraints of taxpayer confidentiality. Service and the public trust should not be subordinated to personal gain and advantage. Objectivity is a state of mind and a quality that lends value to a tax practice or function.

6. The member's firm or employer should consider establishing and maintaining policies and procedures to accomplish the following objectives to the extent such objectives are applicable to such tax practice or function:

- a. Require that personnel adhere to the AICPA Code of Professional Conduct, including the SSTs, Treasury Department Circular No. 230, and any other applicable laws or standards of relevant tax or regulatory agencies (such as state boards of accountancy and federal, foreign, state, and local tax authorities).
- b. Communicate to personnel policies and procedures relating to integrity and objectivity. This includes the need to treat as confidential all information regarding taxpayer matters.
- c. Document, where appropriate, compliance with policies and procedures relating to integrity and objectivity.

Personnel Management

7. A tax practice system of quality control depends heavily on the proficiency of the firm or employer's personnel. In making assignments, the nature and extent of supervision to be

provided should be considered. Generally, the more able and experienced the personnel assigned to a particular engagement or task, the less direct supervision is needed.

8. Personnel management encompasses hiring, assigning personnel to engagements or tasks, supervision, professional development, and advancement activities. Accordingly, the member's firm or employer should consider establishing and maintaining policies and procedures to provide its tax practice or function with reasonable assurance that:

- a. Those personnel hired possess the appropriate characteristics to enable them to perform competently.
- b. Work is assigned to personnel having the degree of technical training and proficiency required under the circumstances.
- c. Personnel are adequately supervised.
- d. Personnel participate in tax, general, and (as appropriate) industry-specific continuing professional education and other professional development activities that enable them to fulfill responsibilities assigned, and satisfy applicable continuing professional education requirements of the AICPA, state boards of accountancy, and other regulatory agencies.
- e. The performance of tax professionals and other personnel involved in the tax practice or function is periodically evaluated and their progress reviewed with them.
- f. Personnel selected for advancement have the necessary qualifications to fulfill the responsibilities they will be called on to assume.

Acceptance and Continuance of Clients and Engagements (Public Practice Only)

9. In public practice, the member's firm should consider establishing and maintaining policies and procedures for deciding whether to accept or continue a client relationship and whether to perform a specific engagement for that client (see also SSTS No. 6, *Knowledge of Error: Return Preparation* [AICPA, *Professional Standards*, vol. 2, TS sec. 600], and SSTS No. 7, *Knowledge of Error: Administrative Proceedings* [AICPA, *Professional Standards*, vol. 2, TS sec. 700]). Establishing such policies and procedures does not imply that a member vouches for the integrity or reliability of a client, nor does it imply that a member has a duty to any person or entity with respect to the acceptance, rejection, or retention of clients. Prudence suggests that a member be selective in determining his or her client relationships and the professional services he or she will provide. These policies and procedures should also provide reasonable assurance that the tax practice:

- a. Undertakes only those engagements that can be completed with professional competence, and
- b. Appropriately considers the risks associated with providing professional services in the particular circumstances.

10. The member's firm should consider establishing and maintaining policies and procedures to accomplish the following objectives to the extent applicable to its tax practice:

- a. The evaluation and approval of prospective clients, including (when appropriate) contact with predecessor tax preparers.
- b. The documentation of the client's understanding and acceptance of the scope of the member's services, the member's responsibility for tax advice and returns, and the financial aspects of the client's relationship with the member. These understandings should be memorialized through the use of engagement letters or alternative documentation.
- c. The review and evaluation of clients periodically or upon the occurrence of specific events to determine whether the relationship should be continued, modified, or terminated.

Performance of Professional Services

11. The member's firm or employer should consider establishing and maintaining policies and procedures to provide reasonable assurance that the tax services performed by its personnel meet applicable professional standards, including the AICPA SSTS, regulatory requirements, and the tax practice's or function's standards of quality. To the extent appropriate and as required by applicable professional standards, these policies and procedures should cover planning, performing, supervising, reviewing, documenting, and communicating the results of all tax services. The extent of the supervision and review appropriate in a given situation depends on many factors, including the complexity of the subject matter, the qualifications of the personnel performing the service, and the extent of the consultation used.

12. The member's firm or employer should consider establishing and maintaining policies and procedures to accomplish the following to the extent such objectives are applicable to its tax practice or function:

- a. Planning services, including specific evaluation of risk factors.
- b. Providing the appropriate level of supervision to personnel.
- c. Maintaining the tax practice or function's standards in the performance of specific services.
- d. Reviewing working papers, reports, tax returns, tax opinions or advice, and substantive tax correspondence relevant to the services.
- e. Documenting the compliance *aspects* of a tax practice or function, including tax return status and due date maintenance. This includes the establishment of appropriate record retention procedures for a member's tax practice or function.

- f.* Communicating the results of the service as appropriate.
- g.* Designating individuals within and without the tax practice or function to serve as authoritative sources, and defining their authority in consultative situations. This includes establishing procedures to resolve differences of opinion.

Monitoring and Inspection

13. To provide reasonable assurance that the firm or employer's tax practice quality control system achieves its objectives, appropriate consideration should be given to the assignment of quality control responsibilities within the tax practice or function, the means by which quality control policies and procedures are communicated, and the extent to which the policies and procedures and compliance therewith should be documented. The size, structure, and nature of the firm's tax practice or employer's tax function should be considered in determining whether documentation of quality control policies and procedures is required and, if so, the extent of such documentation. For example, documentation of quality control policies and procedures would generally be expected to be more extensive in a large tax practice or function than in a small one. Similarly, quality control should be more extensive in a multioffice tax practice or function than in a single location.

14. The member's firm or employer should consider establishing and maintaining policies and procedures to accomplish the following objectives to the extent applicable to its tax practice or function:

- a.* Documenting compliance with the tax practice or function's policies and procedures, as well as the SSTs and relevant professional codes and guidelines.
- b.* Maintaining an appropriate library of reference materials, practice guides, and access to appropriate online materials.
- c.* Providing an effective program of professional development and educational activities.
- d.* Where appropriate, defining the appropriate scope and content of the tax practice or function's inspection program, reporting inspection findings to the appropriate management levels, and monitoring actions taken or planned.
- e.* Reviewing the relevance and adequacy of its quality control policies and procedures for each of the other elements of the quality control system.

Administration and Documentation of a Quality Control System

15. Responsibility for the design and maintenance of the various quality control policies and procedures should be assigned to an appropriate individual(s) in the tax practice or function. In making that assignment, consideration should be given to the proficiency of the individual(s), the authority to be delegated, and the extent of supervision to be provided. However, all the tax

practice or function's personnel are responsible for complying with the quality control policies and procedures.

16. A member's firm or employer should communicate its tax practice quality control policies and procedures to personnel in a manner that provides reasonable assurance that personnel understand and comply with those policies and procedures. The form and extent of such communications should be sufficiently comprehensive and timely to provide personnel with an understanding of the tax practice quality control policies and procedures applicable to them, including changes to such policies and procedures.