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# FIRST-TIME IMPLEMENTATION GUIDE

## International Standard on Quality Management 2, *Engagement Quality Reviews*



IAASB

International Auditing  
and Assurance  
Standards Board

**FIRST-TIME IMPLEMENTATION GUIDE:  
INTERNATIONAL STANDARD ON QUALITY MANAGEMENT (ISQM) 2,  
ENGAGEMENT QUALITY REVIEWS**

**CONTENTS**

INTRODUCTION.....	3
EFFECTIVE DATE.....	3
OBJECTIVE OF THE STANDARD .....	4
OVERARCHING CONCEPTS IN ISQM 2 .....	4
REVISED AND NEW DEFINITIONS IN ISQM 2.....	4
LINKAGES .....	5
SCOPE OF ENGAGEMENTS SUBJECT TO AN ENGAGEMENT QUALITY REVIEW .....	7
APPOINTMENT AND ELIGIBILITY OF ENGAGEMENT QUALITY REVIEWERS .....	8
PERFORMANCE OF THE ENGAGEMENT QUALITY REVIEW .....	11
DOCUMENTATION OF THE ENGAGEMENT QUALITY REVIEW.....	14
NOTIFICATION REQUIREMENTS IN ISQM 2.....	14

**This publication has been prepared by the Staff of the International Auditing and Assurance Standards Board (IAASB). The objective of this First-Time Implementation Guide is to help understand and apply ISQM 1 and ISQM 2, as it relates to Engagement Quality Reviews. It does not constitute an authoritative pronouncement of the IAASB, nor does it amend or override ISQM 1 and ISQM 2, the text of which alone is authoritative. Further, this publication is not meant to be exhaustive, and any examples are provided for illustrative purposes only. Reading this publication is not a substitute for reading ISQM 1 and ISQM 2.**

## INTRODUCTION

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In December 2020, the IAASB released three new and revised Quality Management Standards that strengthen and modernize the audit firm's approach to quality management: ISQM 1, ISQM 2 and ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*.

Through these standards, the IAASB addresses an evolving and increasingly complex audit ecosystem, including growing stakeholder expectations and a need for systems of quality management that are proactive and adaptable. The standards direct audit firms to improve the robustness of their monitoring and remediation, embed quality into their corporate culture and the "tone at the top," and improve the robustness of engagement quality reviews.



ISQM 2 paragraph:  
1

### What Does ISQM 2 Address?

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ISQM 2 addresses:

- (a) The appointment and eligibility of the engagement quality reviewer; and
- (b) The engagement quality reviewer's responsibilities relating to the performance and documentation of an engagement quality review.

### What Is the Effect of the Changes?

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The requirements for engagement quality reviews currently reside in extant ISQC 1 and ISA 220. When the new standard becomes effective, ISQM 2 replaces the extant provisions relating to engagement quality reviews in ISQC 1 and ISA 220. There are [conforming amendments](#) to a number of ISAs and related material resulting from the changes made in ISQM 2, none of which are considered substantial.

Having a separate standard for engagement quality reviews provides a number of benefits, including:

- (a) Placing emphasis on the importance of the engagement quality review;
- (b) Enhancing the robustness of the requirements for the eligibility of engagement quality reviewers and the performance and documentation of the review;
- (c) Providing a mechanism to more clearly differentiate the responsibilities of the firm and the engagement quality reviewer; and
- (d) Increasing the scalability of ISQM 1 because there may be cases when a firm may determine that there are no audits or other engagements for which an engagement quality review is an appropriate response to address one or more quality risk(s).



ISQM 2 paragraph:  
11

## EFFECTIVE DATE

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ISQM 2 is effective for:



- Audits and reviews of financial statements for periods beginning on or after December 15, 2022; and
- Other assurance and related services engagements beginning on or after December 15, 2022.

## OBJECTIVE OF THE STANDARD

ISQM 2 is a unique standard because it addresses the responsibilities of multiple parties (i.e., the firm and the engagement quality reviewer). However, since the engagement quality reviewer is acting on behalf of the firm, the objective of the standard is framed as the objective of the firm. The objective is written in terms of the firm because an engagement quality review is a firm's specified response that is carried out at the engagement level. The objective is also intended to be outcome-oriented (i.e., the desired outcome of applying the requirements in the standard, and not an "executive summary" of those requirements).

Accordingly, the objective of the standard includes a reference to the engagement quality review being carried out by an eligible individual appointed by the firm, and specifically states the intended outcome of the review (i.e., an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon).



The objective of the firm, through appointing an eligible engagement quality reviewer, is to perform an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon.

## OVERARCHING CONCEPTS IN ISQM 2

### Significant Judgments and Significant Matters



The concepts of significant judgments and significant matters are addressed in ISA 220 (Revised) and ISA 230, *Audit Documentation*, respectively. The engagement quality reviewer's review of the engagement team's significant judgments in ISQM 2 is consistent with the approach taken in relation to the engagement partner's review of audit documentation in ISA 220 (Revised). Hence, ISQM 2 includes application material in paragraphs A35-A36 that draws attention to these standards. For engagements other than audits of financial statements, the significant judgments made by the engagement team may depend on the nature and circumstances of the engagement or the entity, as indicated in paragraph A37 of ISQM 2.

### Professional Skepticism



ISQM 2 recognizes that the engagement quality reviewer does not exercise professional skepticism because that term is generally described in the context of obtaining and evaluating audit evidence. Paragraph 9 of ISQM 2 indicates that the engagement quality reviewer is not a member of the engagement team and is not required to obtain evidence to support the opinion or conclusion on the engagement, but the engagement team may obtain further evidence in responding to matters raised during the engagement quality review. However, ISQM 2 requires that the engagement quality reviewer evaluates, when applicable to the type of engagement, the exercise of professional skepticism by the engagement team (see 'Performance of the Engagement Quality Review,' below).

## REVISED AND NEW DEFINITIONS IN ISQM 2

To align with the new quality management approach in ISQM 1, ISQM 2 changes the terms "engagement quality control review / reviewer" in extant ISQC 1 and ISA 220 to "engagement quality review / reviewer."

ISQM 2 streamlines the definition of the terms engagement quality review / reviewer by excluding details of the definition (previously included in the definition of the terms engagement quality control review / reviewer) that repeat requirements of the standard.

ISQM 2 introduces a new definition of the term “relevant ethical requirements” in the context of relevant ethical requirements applicable to a professional accountant when undertaking an engagement quality review.

Revised and New Definitions	Description	Further Explanatory Material
Engagement quality review	An objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report.	Not applicable
Engagement quality reviewer	A partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.	Not applicable
Relevant ethical requirements	Principles of professional ethics and ethical requirements that are applicable to a professional accountant when undertaking the engagement quality review. Relevant ethical requirements ordinarily comprise the provisions of the International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) related to audits or reviews of financial statements, or other assurance or related services engagements, together with national requirements that are more restrictive.	Para. A12-A15

## LINKAGES

### How Is ISQM 2 Linked to ISQM 1?

 ISQM 2 paragraphs: 3, 5



ISQM 2 is designed to operate as part of the firm’s system of quality management, and therefore the requirements in ISQM 1 and ISQM 2 are organized in a manner that provide appropriate linkages between the standards:

- ISQM 1 addresses the scope of engagements subject to an engagement quality review; and
- ISQM 2 addresses the specific requirements for the appointment and eligibility of the engagement quality reviewer and the performance and documentation of the review.

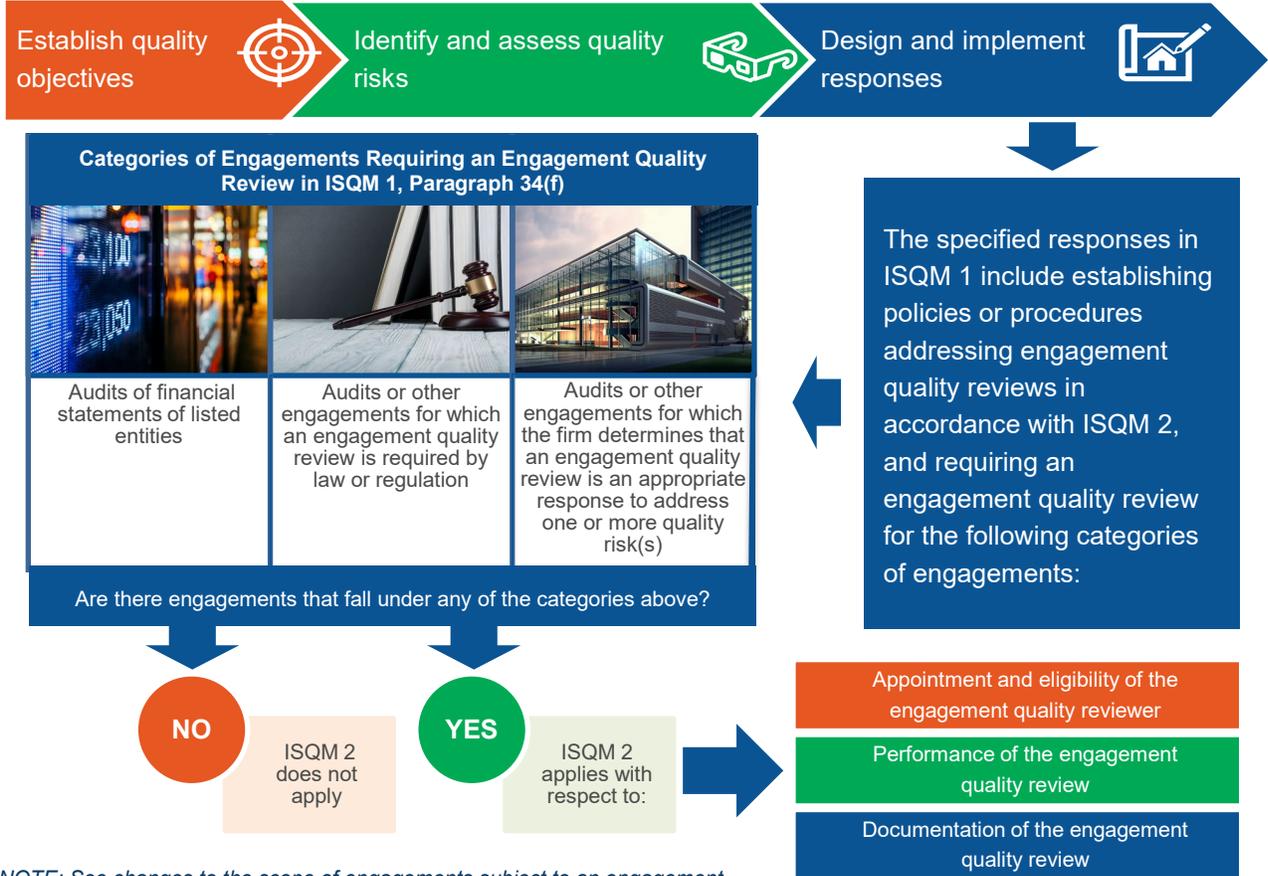
ISQM 1 establishes the firm’s responsibilities for its system of quality management and requires the firm to design and implement responses to address the quality risks in a manner that is based on, and responsive to, the reasons for the assessments given to the quality risks. The specified responses in ISQM 1 include establishing policies or procedures addressing engagement quality reviews in accordance with ISQM 2. Therefore, an engagement quality review performed in accordance with ISQM 2 is a specified response

that is designed and implemented by the firm in accordance with ISQM 1. The performance of an engagement quality review is undertaken at the engagement level by the engagement quality reviewer on behalf of the firm.

 ISQM 1 paragraphs: 23, 34(f)

**Diagram: Relationship Between ISQM 1 and ISQM 2**

ISQM 1 requires firms to:



*NOTE: See changes to the scope of engagements subject to an engagement quality review below.*

**How Is ISQM 2 Linked to ISA 220 (Revised)?**



Although there are no longer requirements for the performance of engagement quality reviews in ISA 220 (Revised), the revised standard still contains requirements regarding the engagement partner’s responsibilities relating to the engagement quality review, which largely focus on how the engagement partner and the engagement team interact with the engagement quality reviewer.

Application material in ISQM 2 draws attention to the relevant requirements and / or application material in ISA 220 (Revised) relating to:

Reference in ISQM 2	Requirements and / or Application Material in ISA 220 (Revised)	Reference in ISA 220 (Revised)
Para. A25	Engagement partner responsibilities in relation to the engagement	Para. 36

Reference in ISQM 2	Requirements and / or Application Material in ISA 220 (Revised)	Reference in ISA 220 (Revised)
	quality review	
Para. A35	Engagement partner responsibilities to review audit documentation relating to significant matters and significant judgments	Para. 31
Para. A36	Examples of significant judgments that may be identified by the engagement partner related to the overall audit strategy and audit plan for undertaking the engagement, the execution of the engagement and the overall conclusions reached by the engagement team	Para. A93
Para. A42	Examples of the impediments to the exercise of professional skepticism at the engagement level, unconscious auditor biases that may impede the exercise of professional skepticism, and possible actions that the engagement team may take to mitigate impediments to the exercise of professional skepticism at the engagement level	Para. A34-A36
Para. A44	Requirement for the engagement partner, prior to dating the auditor’s report, to take responsibility for determining whether relevant ethical requirements, including those related to independence, have been fulfilled	Para. 21
Para. A46	Requirement for the engagement partner to determine, prior to dating the auditor’s report, that the engagement partner’s involvement has been sufficient and appropriate throughout the audit engagement	Para. 40(a)

 **ISQM 1 paragraphs: 34(f), A133-A137**

## SCOPE OF ENGAGEMENTS SUBJECT TO AN ENGAGEMENT QUALITY REVIEW

Paragraph 34(f) of ISQM 1 extends the scope of engagements requiring an engagement quality review to engagements other than audits of listed entities. The scope now covers those engagements that require an engagement quality review pursuant to law or regulation, and those engagements for which the firm determines that an engagement quality review is an appropriate response to address quality risks.

### Categories of Engagements Requiring an Engagement Quality Review in ISQM 1, Paragraph 34(f)



Audits of financial statements of listed entities



Audits or other engagements for which an engagement quality review is required by law or regulation



Audits or other engagements for which the firm determines that an engagement quality review is an appropriate response to address one or more quality risk(s)



Paragraph A133 of ISQM 1 provides examples of audit engagements for which law or regulation may require an engagement quality review. Paragraph A134 of ISQM 1 provides examples of conditions, events, circumstances, actions or inactions giving rise to one or more quality risk(s) for which an engagement quality review may be an appropriate response.



Application material in paragraphs A135-A136 of ISQM 1 notes that the firm's responses to address quality risks may include other forms of engagement reviews that are not an engagement quality review. In some cases, the firm may determine that there are no audits or other engagements for which an engagement quality review or another form of engagement review is an appropriate response to address the quality risk(s).

## APPOINTMENT AND ELIGIBILITY OF ENGAGEMENT QUALITY REVIEWERS

ISQM 2 includes new requirements and application material addressing:

- The eligibility of the individual(s) within the firm responsible for the appointment of engagement quality reviewers;
- Limitations on the eligibility of an individual to be appointed as engagement quality reviewer for an engagement for which the individual previously served as the engagement partner;
- The eligibility of individual(s) who assist the engagement quality reviewer in performing the engagement quality review; and
- The engagement quality reviewer taking overall responsibility for the performance of the engagement quality review, including that the work of individuals assisting in the review is appropriate.

### Assignment of Responsibility for the Appointment of Engagement Quality Reviewers



ISQM 2 paragraphs:  
17, A1-A3

Paragraph 17 of ISQM 2 includes a new requirement for firms to establish policies or procedures that require the assignment of responsibility for the appointment of engagement quality reviewers to an individual(s) with the competence, capabilities and appropriate authority within the firm to fulfill the responsibility.

**Eligibility Criteria for the Engagement Quality Reviewer**

The requirements in ISQM 2 for the appointment and eligibility of the engagement quality reviewer (whether internal or external to the firm) are more robust than those in extant ISQC 1. However, the requirement that the engagement quality reviewer not be a member of the engagement team remains unchanged.

*Competence and Capabilities, Including Sufficient Time*

Extant ISQC 1 includes requirements regarding the criteria for eligibility of engagement quality reviewers that focus on technical qualifications, including necessary experience and authority, and maintaining the reviewer’s objectivity. ISQM 2 expands the eligibility requirements and describes competence and capabilities of the engagement quality reviewer in a manner similar to other roles described in ISQM 1.



Application material in paragraphs A5-A8 of ISQM 2 provides further explanation of considerations in determining whether an individual has the competence and capabilities needed to perform the engagement quality review for a particular engagement.

Paragraph 18(a) of ISQM 2 includes a new explicit requirement that the firm’s policies or procedures require that the engagement quality reviewer has sufficient time to perform the review.

*Appropriate Authority*

Although extant ISQC 1 refers to having the necessary authority to perform the review, it does not provide further information about how such authority is attained. Authority may be established through different means, not only through having a particular title or position within the firm.



Application material in paragraph A9 of ISQM 2 highlights that the firm’s culture can enhance the authority of the engagement quality reviewer by creating a culture of respect for the role of the engagement quality reviewer, which also reduces the likelihood that the engagement quality reviewer is inappropriately influenced in a way that would compromise the reviewer’s evaluation of significant judgments made by the engagement team. In addition, ISQM 2 notes that the firm’s policies or procedures addressing differences of opinion may also enhance the authority of the engagement quality reviewer by providing a mechanism for the engagement quality reviewer to resolve issues when differences of opinion arise.

 Application material in paragraph A10 of ISQM 2 includes guidance about circumstances in which the authority of the engagement quality reviewer may be diminished.

*Relevant Ethical Requirements, Including Objectivity*

Extant ISQC 1 includes a requirement for firms to establish policies and procedures designed to maintain the objectivity of the engagement quality reviewer. In order to improve the focus on the objectivity of the engagement quality reviewer and address the more specific threats that may arise, paragraph 18(b) of ISQM 2 requires that the engagement quality reviewer comply with relevant ethical requirements, including in relation to threats to objectivity and independence of the engagement quality reviewer.



**i** Paragraphs A14-A15 of ISQM 2 provide examples of threats to the objectivity of the engagement quality reviewer.

*Cooling-Off Period for an Individual After Previously Serving as the Engagement Partner*

Paragraph 19 of ISQM 2 includes a new requirement for the firm’s policies or procedures to specify a cooling-off period of two years, or a longer period if required by relevant ethical requirements, before the engagement partner can assume the role of the engagement quality reviewer. This requirement applies to all engagements subject to an engagement quality review, as determined in accordance with ISQM 1.



Application material in paragraphs A17-A18 of ISQM 2 provides additional guidance addressing the cooling-off period for an individual after previously serving as the engagement partner.

*Law or Regulation Relevant to the Eligibility of the Engagement Quality Reviewer*

Paragraph 18(c) of ISQM 2 includes a new explicit requirement that the firm’s policies or procedures require that the engagement quality reviewer comply with provisions of law and regulation, if any, that are relevant to the eligibility of the engagement quality reviewer.

Application material in paragraph A16 of ISQM 2 notes that law or regulation may prescribe additional requirements regarding the eligibility of the engagement quality reviewer.

**Overall Responsibility for the Performance of the Engagement Quality Review**



**ISQM 2 paragraphs: 21, A22**

Paragraph 21 of ISQM 2 includes a new requirement that the firm establish policies or procedures that:

- (a) Require the engagement quality reviewer to take overall responsibility for the performance of the engagement quality review; and
- (b) Address the engagement quality reviewer’s responsibility for determining the nature, timing and extent of the direction and supervision of the individuals assisting in the review, and the review of their work.

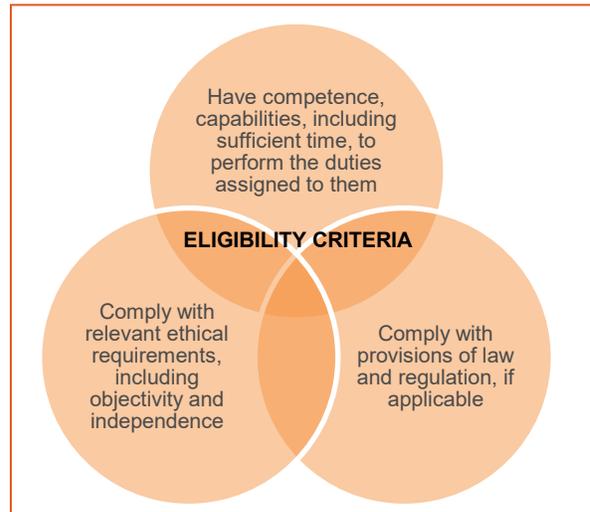
**Eligibility Criteria for Individual(s) Assisting the Engagement Quality Reviewer**



ISQM 2 paragraphs: 20, A19-A21

Paragraph 20 of ISQM 2 includes a new requirement that the firm establishes policies or procedures that set forth the criteria for eligibility of individuals who assist the engagement quality reviewer. ISQM 2 also requires that such individuals not be members of the engagement team.

Application material in paragraphs A19-A21 of ISQM 2 provides further guidance in circumstances when the engagement quality reviewer uses assistants.



**Impairment of the Engagement Quality Reviewer’s Eligibility to Perform the Engagement Quality Review**



ISQM 2 paragraphs: 22-23, A23-A24



Extant ISQC 1 includes a requirement that the firm’s policies and procedures provide for the replacement of the engagement quality reviewer where the reviewer’s ability to perform an objective review may be impaired. Paragraph 22 of ISQM 2 expands this provision by requiring the firm to establish policies or procedures that address circumstances in which the engagement quality reviewer’s eligibility to perform the engagement quality review is impaired and the appropriate actions to be taken by the firm, including the process for identifying and appointing a replacement in such circumstances.



Application material in paragraph A23 of ISQM 2 sets out factors that may be relevant to the firm in considering whether the eligibility of the engagement quality reviewer to perform the engagement quality review is impaired.

Paragraph 23 of ISQM 2 includes a new requirement for the engagement quality reviewer to take the following specific actions when the engagement quality reviewer becomes aware of circumstances that impair the engagement quality reviewer’s eligibility:

- Notify the appropriate individual(s) in the firm.
- If the engagement quality review has not commenced, decline the appointment to perform the engagement quality review.
- If the engagement quality review has commenced, discontinue the performance of the engagement quality review.

**PERFORMANCE OF THE ENGAGEMENT QUALITY REVIEW**

ISQM 2 clarifies and improves the requirements addressing the performance of the engagement quality reviews to enhance their robustness.

## Timing of the Engagement Quality Review



ISQM 2 paragraph:  
24(a)

Paragraph 24(a) of ISQM 2 includes a new explicit requirement addressing the engagement quality reviewer's responsibility to perform the procedures at appropriate points in time during the engagement.

## Significant Judgments and Significant Matters



ISQM 2 paragraphs:  
25(b), A35-A38

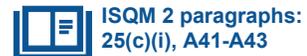


Extant ISQC 1 requires the engagement quality reviewer to: (1) discuss significant matters with the engagement partner; (2) review selected engagement documentation relating to significant judgments the engagement team made and the conclusions it reached; and (3) evaluate the conclusions reached in formulating the report and consider whether the proposed report is appropriate. Paragraphs 25(a)-25(c) of ISQM 2 expand these provisions by requiring the engagement quality reviewer to:

- Read, and obtain an understanding of, information communicated by: (1) the engagement team regarding the nature and circumstances of the engagement and the entity; and (2) the firm related to the firm's monitoring and remediation process, in particular identified deficiencies that may relate to, or affect, the areas involving significant judgments made by the engagement team.
- Discuss with the engagement partner and, if applicable, other members of the engagement team, significant matters and significant judgments made in planning, performing and reporting on the engagement.
- Based on information obtained and discussions made above, review selected engagement documentation relating to the significant judgments made by the engagement team and evaluate: (1) the basis for making those significant judgments, including, when applicable to the type of engagement, the exercise of professional skepticism by the engagement team; (2) whether the engagement documentation supports the conclusions reached; and (3) whether the conclusions reached are appropriate.

The discussion with the engagement partner (or other engagement team members, if applicable), along with the information obtained from the engagement team about the nature and circumstances of the entity, will enable the engagement quality reviewer to become aware of the areas for which significant judgments would have been made. Obtaining an understanding of information communicated by the engagement team and the firm may assist the engagement quality reviewer in understanding the significant judgments that may be expected for the engagement. Based on that information, the engagement quality reviewer reviews selected engagement documentation in support of those significant judgments.

## Professional Skepticism



ISQM 2 paragraphs:  
25(c)(i), A41-A43

With respect to professional skepticism, paragraph 25(c)(i) of ISQM 2 includes a new requirement for the engagement quality reviewer to evaluate, based on the review of selected engagement documentation, the basis for the engagement team's significant judgments, including, when applicable to the type of engagement, the exercise of professional skepticism by the engagement team.



This requirement acknowledges that an important part of the engagement quality reviewer's role is evaluating the engagement team's exercise of professional skepticism in making significant judgments and reaching conclusions thereon. Given the importance of the engagement quality reviewer's evaluation of the engagement team's exercise of professional skepticism, new application material in paragraphs A41-A43 of ISQM 2 provides further guidance in this regard.



ISQM 2 paragraph:  
25(d)-25(e), A44-A45

### Independence and Consultation

For audits of financial statements of listed entities, extant ISQC 1 requires the firm to establish policies and procedures to require the engagement quality reviewer to also include the consideration of independence and consultation. ISQM 2 now expands the applicability of the relevant requirements beyond audits of financial statements of listed entities. Paragraphs 25(d) and 25(e) of ISQM 2, respectively, require the engagement quality reviewer to:



- For audits of financial statements, evaluate the basis for the engagement partner's determination that relevant ethical requirements relating to independence have been fulfilled; and
- For all engagements, evaluate whether appropriate consultation has taken place on difficult or contentious matters or matters involving differences of opinion and the conclusions arising from those consultations.

### Sufficient and Appropriate Involvement of the Engagement Partner on the Engagement



ISQM 2 paragraph:  
25(f), A46

For audits of financial statements, paragraph 25(f) of ISQM 2 includes a new requirement for the engagement quality reviewer to evaluate the basis for the engagement partner's determination that the engagement partner's involvement has been sufficient and appropriate throughout the audit engagement such that the engagement partner has the basis for determining that the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the engagement.



ISQM 2 paragraphs:  
A32-A33

### Group Audit Considerations



For group audit engagements, although there may be complexities due to the nature of the engagement and the fact that audit procedures may be performed on the financial information of components, the objective of the engagement quality review remains the same (i.e., an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon).



New application material in paragraphs A32-A33 of ISQM 2 provides considerations related to the performance of an engagement quality review for a group audit.

**Completion of the Engagement Quality Review**

 **ISQM 2 paragraph: 27**

Paragraph 27 of ISQM 2 includes a new “stand-back” requirement for the engagement quality reviewer to determine whether the requirements in ISQM 2 with respect to the performance of the engagement quality review have been fulfilled, and whether the engagement quality review is complete.

**DOCUMENTATION OF THE ENGAGEMENT QUALITY REVIEW**

 **ISQM 2 paragraphs: 28-30, A50-A53**

Paragraphs 28-29 of ISQM 2 include new specific requirements for the engagement quality reviewer to take responsibility for documentation of the engagement quality review, and that the documentation be filed with the engagement documentation.

Paragraph 30 of ISQM 2 also includes a new overarching requirement for the documentation to be sufficient to enable an experienced practitioner, having no previous connection to the engagement, to understand the nature, timing and extent of the engagement quality review procedures performed.



While ISQM 2 includes principles-based documentation requirements, application material in paragraph A40 of ISQM 2 provides guidance that the firm’s policies or procedures may specify engagement documentation to be reviewed by the engagement quality reviewer. In addition, such policies or procedures may indicate that the engagement quality reviewer exercises professional judgment in selecting additional engagement documentation to be reviewed relating to significant judgments made by the engagement team.

**NOTIFICATION REQUIREMENTS IN ISQM 2**



The engagement quality reviewer is required to comply with the new notification requirements in ISQM 2 under the following circumstances:

Reference in ISQM 2	Circumstances Requiring Notification	Party(ies) to be Notified
Para. 23, A24	 Impairment of the engagement quality reviewer’s eligibility to perform the engagement quality review	Appropriate individual(s) in the firm
Para. 26, A49	 Unresolved concerns of the engagement quality reviewer	Engagement partner and appropriate individual(s) in the firm
Para. 27	 Completion of the engagement quality review	Engagement partner

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