

Basis for Conclusions
Prepared by the Staff of the IAASB
December 2020

International Standard on Quality Management

**International Standard on Quality
Management (ISQM) 2**

Engagement Quality Reviews

IAASB

**International Auditing
and Assurance
Standards Board**

About the IAASB

The Staff of the International Auditing and Assurance Standards Board (IAASB) prepared this document, and it does not constitute an authoritative pronouncement of the IAASB. The document does not amend, extend or override the International Standards on Auditing or other of the IAASB's International Standards.

The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related services standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group, which provides public interest input into the development of the standards and guidance. The structures and processes that support the operations of the IAASB are facilitated by the International Federation of Accountants (IFAC).

For copyright, trademark, and permissions information, please see [page 15](#).

ISA.

IAASB
International Auditing
and Assurance
Standards Board®

BASIS FOR CONCLUSIONS: ISQM 2, ENGAGEMENT QUALITY REVIEWS

This Basis for Conclusions has been prepared by Staff of the International Auditing and Assurance Standards Board (IAASB). This document includes explanation of the IAASB's basis for conclusions with respect to comments received on significant and other matters relating to engagement quality reviews, including comments received on the requirement and application material regarding the scope of engagements subject to an engagement quality review in ISQM 1.¹ It relates to, but does not form part of, ISQM 2, *Engagement Quality Reviews*, or the requirement and application material regarding the scope of engagements subject to an engagement quality review in ISQM 1, or the conforming and consequential amendments to International Standards on Auditing (ISAs).

ISQM 2 was approved with the affirmative votes of 18 out of 18 IAASB members, and the conforming and consequential amendments to ISAs were approved with the affirmative votes of 18 out of 18 IAASB members.²

Section A – Introduction

Background

1. The project to address engagement quality reviews originated from the issues identified in the IAASB's Invitation to Comment (ITC)³ published in December 2015. The IAASB recognized the importance of the engagement quality review and the public interest importance ascribed to it by certain stakeholders. In addition, findings from the ISA Implementation Monitoring project⁴ had earlier identified concerns that the requirements in ISA 220⁵ and ISQC 1⁶ regarding engagement quality reviews were not sufficiently robust, and similar concerns were expressed by audit oversight bodies.⁷
2. In the second half of 2016, the IAASB analyzed the feedback from the ITC and discussed the preliminary views in response to the feedback received relating to engagement quality reviews. The input from the ITC informed the development of a project proposal in moving forward on all matters relating to engagement quality reviews.
3. In December 2016, the IAASB approved a combined project proposal⁸ to address the revision of

¹ ISQM 1 (Previously International Standard on Quality Control (ISQC) 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

² For a full record of the voting on ISQM 2, see <https://www.iaasb.org/meetings/iaasb-board-meeting-virtual-videoconferencing-1>.

³ Invitation to Comment, [Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits](#) (the ITC)

⁴ <https://www.iaasb.org/publications/clarified-isas-findings-post-implementation-review>

⁵ International Standard on Auditing (ISA) 220, *Quality Control for an Audit of Financial Statements*

⁶ ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

⁷ The terms "engagement quality control review / reviewer" previously used in the extant ISQC 1 and ISA 220 were changed to "engagement quality review / reviewer" following the new quality management approach used in the new and revised quality management standards.

⁸ [Enhancing Audit Quality: Project Proposal for the Revision of the IAASB's International Standards Relating to Quality Control and Group Audits](#) (the Project Proposal)

ISQC 1, ISA 220 and ISA 600.⁹ The project proposal took into consideration the proportionality and scalability of the standards, given the particular challenges of small- and medium-sized practices and audits of small- and medium-sized entities.

4. The project objectives were to:

(a) Propose revisions to:

- (i) ISQC 1 to strengthen and improve a firm's management of quality for all engagements performed under the IAASB's International Standards by more explicitly incorporating a quality management approach, fostering the ability of the standard to be applied to a wide range of circumstances, and enhancing the requirements and application material.
- (ii) ISA 220 to strengthen aspects of quality management for individual audit engagements by focusing on the identification, assessment and response to quality risks in a broad range of engagement circumstances.
- (iii) ISA 600 to strengthen the auditor's approach to planning and performance of a group audit and clarify the interaction of ISA 600 to the other ISAs.

As the projects proceeded, consideration was to be given as to how best to structure the resulting revised standards, including possibly introducing new standards to deal with certain aspects if appropriate.

(b) Propose consequential amendments to other standards that may be necessary as a result of revisions to ISQC 1, ISA 220 and ISA 600.

(c) Determine whether non-authoritative guidance and support tools should be developed by the IAASB or others to supplement the revisions or new standard(s). Non-authoritative guidance and support tools may include International Auditing Practice Notes (IAPNs),¹⁰ Staff publications,¹¹ project updates, or illustrations / examples to provide assistance on how ISQC 1, ISA 220, ISA 600 and any new standards could be applied, in particular, to address concerns regarding the ability of the standards to be applied to a wide range of circumstances.

5. At its June 2017 meeting, the IAASB discussed the appropriate location of the requirements and application material in relation to engagement quality reviews and agreed that a separate standard addressing engagement quality reviews should be developed.

6. At its September 2017 meeting, the IAASB discussed recommendations in relation to engagement quality reviews that would be incorporated into proposed ISQM 1 and a new standard for engagement quality reviews, proposed ISQM 2. The IAASB confirmed that the purpose of the engagement quality review is to evaluate the significant judgments made by the engagement team. In addition to various recommendations to further enhance and clarify the various requirements and application material,

⁹ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

¹⁰ International Auditing Practice Notes (IAPNs) do not impose additional requirements on auditors beyond those included in the ISAs, nor do they change the auditor's responsibility to comply with all ISAs relevant to the audit. IAPNs provide practical assistance to auditors. They are intended to be disseminated by those responsible for national standards, or used in developing corresponding national material. They also provide material that firms can use in developing their training programs and internal guidance.

¹¹ Staff publications are used to help raise practitioners' awareness of significant new or emerging issues by referring to existing requirements and application material, or to direct their attention to relevant provisions of IAASB pronouncements.

the IAASB sought to improve the robustness of the requirement in ISQM 1 relating to the scope of engagements subject to an engagement quality review.

7. At its December 2018 meeting, the IAASB approved three quality management exposure drafts for public comment: [ED-ISQM 1](#),¹² [ED-ISQM 2](#)¹³ and [ED-220](#).¹⁴ The exposure drafts were issued in early February 2019 and closed for comment on July 1, 2019. In total, 92 comment letters were received on ED-ISQM 2.
8. In addition to the quality management exposure drafts, an [overall explanatory memorandum](#) provided background to the three exposure drafts and an explanation of the significant issues pervasive to the three exposure drafts, including a discussion of scalability and the interrelationship of the three proposed standards. It also set out the IAASB's proposals regarding the effective date and the related implementation period for the three proposed standards, as well as the IAASB's planned implementation support activities.
9. As explained in the explanatory memorandum for ED-ISQM 2, the IAASB agreed that since the engagement quality review is a firm-level response to address quality risks that is implemented by the engagement quality reviewer on behalf of the firm, ED-ISQM 1 should address the engagements for which an engagement quality review is to be performed. The specific criteria for an individual to be eligible to perform the engagement quality review and requirements for the performance and documentation of the review were included in ED-ISQM 2.
10. During the exposure period, the IAASB undertook various outreach activities to help stakeholders understand the proposals, including webinars, videos, and roundtables.

Public Interest Issues

11. The table below shows the public interest issues identified by the IAASB in the ITC and the project proposal in relation to engagement quality reviews and the subsequent decisions made in the development of ISQM 2 in the public interest. The decisions took into account the comments received in response to ED-ISQM 2, and ED-ISQM 1 with respect to the scope of engagements subject to an engagement quality review (paragraph references in this table are to ISQM 2 and ISQM 1, as appropriate).

Public Interest Issues	IAASB Decisions
Issues were identified with respect to the following areas:	The IAASB responded by:
<ul style="list-style-type: none"> • The appropriateness of the criteria established by firms to determine which engagements are subject to an engagement quality review, with a view that insufficient focus is being placed on entities of particular public interest that are not listed entities.¹⁵ 	<ul style="list-style-type: none"> • Extending the requirement for an engagement quality review to engagements in addition to audits of financial statements of listed entities (see paragraphs 34(f) and A133-A137 of ISQM 1).

¹² Proposed ISQM 1 (Previously ISQC 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance Engagements or Related Services Engagements* (ED-ISQM 1)

¹³ Proposed ISQM 2, *Engagement Quality Reviews* (ED-ISQM 2)

¹⁴ Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements* (ED-220)

¹⁵ ISQC 1, paragraph 35(b)

Public Interest Issues	IAASB Decisions
<ul style="list-style-type: none"> The selection of the engagement quality reviewer, including the qualifications, experience and objectivity of the individual selected to perform the engagement quality review, and consideration of the reviewer's own inspection results. 	<ul style="list-style-type: none"> Enhancing the eligibility criteria for an individual to be appointed as an engagement quality reviewer, including a mandatory cooling-off period to address threats to objectivity created by an individual being appointed as an engagement quality reviewer after previously serving as the engagement partner (see paragraphs 18-19 and A4-A18 of ISQM 2).
<ul style="list-style-type: none"> The timing of the performance of the engagement quality review, specifically with respect to when the engagement quality reviewer becomes involved in the engagement quality review and the time allocated to the engagement quality reviewer for the performance of the review. 	<ul style="list-style-type: none"> Requiring that the criteria for eligibility to be appointed as engagement quality reviewer include having the competence and capabilities, including sufficient time, and the appropriate authority to perform the engagement quality review (see paragraphs 18(a) and A5-A11 of ISQM 2). Clarifying the engagement quality reviewer's responsibilities to perform the engagement quality review at appropriate points in time during the engagement (see paragraph 24(a) of ISQM 2).
<ul style="list-style-type: none"> The depth and the focus of the review, specifically highlighting a perception that, in some cases, the engagement quality reviewer paid insufficient attention to the assessment of and response to areas of significant risk or significant judgments made by the engagement partner and the engagement team, including how, and in which areas of the audit, the engagement team utilized audit delivery models. 	<ul style="list-style-type: none"> Enhancing the requirements and application material regarding the engagement quality reviewer's responsibilities, including the nature, timing and extent of the engagement quality review procedures performed (see paragraphs 24-27 and A25-A49 of ISQM 2).

Public Interest Issues	IAASB Decisions
<ul style="list-style-type: none"> The robustness of the documentation of the review, including citing the documents reviewed, the issues raised as part of the review and the disposition of those issues. 	<ul style="list-style-type: none"> Including a specific requirement for the engagement quality reviewer to take responsibility for documentation of the engagement quality review (see paragraphs 28 and A50 of ISQM 2). Adding a requirement for the engagement quality review documentation to be included with the engagement documentation (see paragraph 29 of ISQM 2). Adding an overarching requirement for the engagement quality review 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, and the conclusions reached in performing the review (see paragraphs 30 and A51-A53 of ISQM 2).

Section B – Scope of Engagements Subject to an Engagement Quality Review

Background

12. As discussed in the explanatory memorandum to ED-ISQM 2, one of the IAASB's objectives was to strengthen the requirements for engagements that should be subject to an engagement quality review by extending the requirement for an engagement quality review to engagements other than audits of listed entities. The requirements in paragraphs 37(e)(ii) and 37(e)(iii)(b) of ED-ISQM 1 were intended to address that objective. Paragraph 37(e) was supported with application material in paragraphs A101-A107 of ED-ISQM 1. Paragraphs 58-62 of the explanatory memorandum to ED-ISQM 1 described the IAASB's discussion and views relating to engagement quality reviews.

Summary of Comments Received on Exposure

13. With respect to the scope of engagements subject to an engagement quality review, respondents to ED-ISQM 1 generally supported the proposals. However, respondents raised concerns that related to the new requirement for the firm's policies or procedures to require an engagement quality review for audits of financial statements of entities that the firm determines are of significant public interest. Respondents were of the view that the term significant public interest cannot be consistently interpreted, and therefore may be confusing or may result in inconsistent application of the requirement. Respondents also raised comments about how the term significant public interest related to the term public interest entity in the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence*

Standards) (IESBA Code). Respondents encouraged the IAASB to coordinate with the IESBA on its [Definitions of Listed Entity and Public Interest Entity](#) project, as appropriate.

IAASB Decisions

14. In the course of its deliberations, the IAASB considered the need for an appropriate balance between the following key considerations:
 - The objective, in the public interest, of extending the requirement for an engagement quality review to engagements in addition to audits of financial statements of listed entities.
 - The clear direction from respondents indicating that the term significant public interest was difficult to define (including with respect to how it relates to the term public interest entity in the IESBA Code) and therefore, may be confusing or may result in inconsistent application of the requirement.
15. The IAASB further considered whether it would be possible to define the term significant public interest or whether it would be practicable to provide guidance for determining engagements that are of significant public interest that would be clear and capable of consistent application across all engagements and jurisdictions, including for public sector engagements. The IAASB determined that the global jurisdictional implications or barriers would be difficult to overcome because of the disparity of the factors or characteristics ascribed to the term significant public interest in different jurisdictions or regions.
16. The IAASB also further considered requiring engagement quality reviews to be performed on certain engagements based on various criteria relating to the nature and circumstances of the engagement or the entity, which may be for reasons other than addressing one or more quality risk(s). However, the IAASB was generally of the view that requiring an engagement quality review in response to reasons that are not risk-based is inconsistent with, and may be viewed as undermining, the principle of a risk-based approach in ISQM 1.
17. As part of a firm's risk assessment process in identifying and assessing quality risks to provide a basis for the design and implementation of responses, the firm is required to obtain an understanding of the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of the quality objectives, including with respect to the nature and circumstances of the engagements performed by the firm. Therefore, the IAASB determined that it becomes more challenging to explain how a category relating to the nature and circumstances of the engagement or the entity would differ from the category of engagements for which an engagement quality review is an appropriate response to address one or more quality risk(s).
18. Accordingly, after discussing various alternatives as described above, the IAASB concluded that the category of engagements for which the firm determines an engagement quality review is an appropriate response to address one or more quality risk(s) would address the comments from respondents.

Section C – Eligibility Criteria for Appointment of Engagement Quality Reviewers

Background

19. The IAASB recognized concerns that had been expressed regarding the appointment of the engagement quality reviewer, including the qualifications, experience and objectivity of the individual appointed to perform the engagement quality review. Hence, the requirements in ED-ISQM 2 for the

appointment and eligibility of the engagement quality reviewer were more robust than those in extant ISQC 1. In particular, ED-ISQM 2 included 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.

Summary of Comments Received on Exposure

20. With respect to the eligibility criteria for an individual to be appointed as the engagement quality reviewer, respondents to ED-ISQM 2 generally agreed that the objectivity of the engagement quality reviewer is critical to the effectiveness of the engagement quality review (i.e., to provide a basis for an objective evaluation of the significant judgments made by the engagement team). However, respondents raised concerns that related to:
- The need for guidance or a requirement on a cooling-off period, for an individual being appointed as the engagement quality reviewer after previously serving as the engagement partner; and
 - The location of any such guidance or requirement (i.e., whether it should be located in ISQM 2, or the IESBA Code, or in both).

IAASB Decisions

21. In the course of its deliberations, the IAASB considered the need for guidance or a requirement on a cooling-off period, particularly for an individual being appointed as the engagement quality reviewer after previously serving as the engagement partner. Consistent with respondent comments to ED-ISQM 2, the IAASB was generally of the view that the objectivity of the engagement quality reviewer is an important aspect of the requirements regarding the eligibility of that individual to be appointed to that role by the firm. It is the separation from the previous involvement in making significant judgments as the engagement partner that is necessary for the engagement quality reviewer to objectively evaluate the significant judgments made by the engagement team and the conclusions reached thereon. A mandatory cooling-off period was intended to address the uniqueness of the threats in this circumstance, given the importance of maintaining objectivity in performing an objective evaluation of the significant judgments made by the engagement team. The IAASB concluded that a mandatory cooling-off period is in the public interest, and is the most appropriate approach to drive consistency in practice. The IAASB was also of the view that a mandatory cooling-off period is consistent with the fundamental principles of, and the conceptual framework in, the IESBA Code.
22. The IAASB also further considered whether the mandatory cooling-off requirement should apply to all engagements for which an engagement quality review is performed. The IAASB was generally of the view that threats to the objectivity of the engagement partner stepping into the role of engagement quality reviewer are not unique to audits of listed entities only, or to the type of engagement. In reaching this conclusion, the IAASB noted that other than for audits of listed entities, or when required by law or regulation, engagement quality reviews are not mandated for other engagements, and the firm may select responses other than an engagement quality review to address one or more quality risk(s), if appropriate. However, when an engagement quality review is required or has been determined by the firm to be the appropriate response, then the same requirements should apply in all cases. The IAASB was generally of the view that a conditional requirement would create a perception of different levels of engagement quality review for different types of engagements, which could lead to inconsistent application in practice and potential confusion in the minds of stakeholders, and therefore would not be in the public interest.

23. Throughout the course of the project, the IAASB deliberated this matter in close coordination with the IESBA. At its December 2019 meeting, the IESBA considered the approach to addressing the issue of threats to objectivity for an engagement quality reviewer, and whether to establish a requirement for a cooling-off period before an engagement partner can step into an engagement quality reviewer role on the same engagement. Following this discussion, the IESBA approved a [project proposal](#) and an [exposure draft](#) on the proposed revision to the IESBA Code addressing the objectivity of engagement quality reviewers. Respondents to the IESBA's exposure draft were explicitly asked whether they agreed with the IESBA that it would be more appropriate for the IAASB to determine whether a cooling-off requirement should be introduced in ISQM 2, and that the IESBA Code should not be prescriptive in this regard.
24. While the views on the matter of location of the cooling-off requirement were somewhat split, there was a clear preponderance of support among respondents to the IESBA's exposure draft across all stakeholder categories, including some regulatory respondents, for the IESBA Code to take a principles-based approach to addressing threats to the objectivity of an individual being appointed as engagement quality reviewer, leaving ISQM 2 to impose a requirement for firms to establish policies or procedures that specify a cooling-off period in such a situation. Therefore, on the balance of respondents' views on the matter of location of the cooling-off requirement, the IESBA did not believe there was a sufficient basis to revisit the position previously held and explained in its exposure draft regarding the location of the requirement. This position maintained that it would be more appropriate for the IAASB to determine whether a cooling-off requirement should be included in ISQM 2, taking into account the guidance set out in the proposed revision to the IESBA Code addressing the objectivity of engagement quality reviewers and the circumstances in which the requirement should apply, to whom it should apply, and what the minimum cooling-off period should be. To reinforce the coordinated response of the IAASB and the IESBA to this matter, a cross-reference has been added in paragraph A15 of ISQM 2 to the guidance in the IESBA Code, and vice versa. At its September 2020 meeting, the IESBA approved a new section to the IESBA Code providing guidance to firms on addressing the objectivity of an engagement quality reviewer based on the conceptual framework.
25. Accordingly, ISQM 2 includes a requirement in paragraph 19 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, which applies to all engagements subject to an engagement quality review, as determined in accordance with ISQM 1. Application material was also added in paragraphs A17-A18 of ISQM 2 to provide further guidance in this regard.

Section D – Other Matters

Significant Judgments and Significant Matters

Background and Summary of Comments Received on Exposure

26. The IAASB noted there sometimes was confusion between the population of matters that would be considered “significant matters” versus those that are “significant judgments.” Respondents to ED-ISQM 2 suggested defining, or providing guidance to further elaborate or explain the two concepts, and the interrelationship between them.
27. Respondents to ED-ISQM 2 also had concerns that the requirement in paragraph 22(c) to identify the areas involving significant judgments made by the engagement team seemed to place too much responsibility on the engagement quality reviewer, or raised questions about whether the

engagement quality reviewer was expected to make an independent assessment about the completeness of the population of significant judgments identified by the engagement team, which would effectively mean reviewing all areas of the engagement and related documentation.

IAASB Decisions

28. The IAASB reaffirmed its view in ED-ISQM 2 that the engagement quality reviewer's review of the engagement team's significant judgments in ISQM 2 needed to be consistent with the approach taken in relation to the engagement partner's review of audit documentation in ISA 220 (Revised). The IAASB previously observed that the concepts of significant matters and significant judgments were addressed in ISA 230¹⁶ and ED-220, respectively. Hence, consistent with the exposure draft, 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.
29. In addition, the IAASB restructured the requirements relating to identifying the areas involving significant judgments by combining paragraphs 22(c) and 22(d) of ED-ISQM 2 into what is now paragraph 25(c) of ISQM 2. The IAASB was of the view that 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. Based on that information, the engagement quality reviewer reviews selected engagement documentation in support of those significant judgments. The IAASB also clarified in paragraph 25(b) of ISQM 2 that the engagement quality reviewer discusses 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. In addition, new application material was added in paragraphs A38-A40 of ISQM 2 to provide guidance with respect to significant judgments.

Professional Skepticism

Background and Summary of Comments Received on Exposure

30. Respondents to ED-ISQM 2 generally agreed that the engagement quality reviewer's evaluation of the engagement team's significant judgments includes evaluating the engagement team's exercise of professional skepticism. However, respondents had mixed views about whether ISQM 2 should further address the exercise of professional skepticism by the engagement quality reviewer.

IAASB Decisions

31. In the course of its deliberations, the IAASB considered the need for an appropriate balance between the following key considerations:
- As defined for purposes of the auditing standards, professional skepticism is an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of evidence.

¹⁶ ISA 230, *Audit Documentation*

- An engagement quality review is an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached thereon.
 - 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. However, the engagement quality reviewer does review selected engagement documentation in support of the engagement team's significant judgments, including when applicable to the type of engagement, the exercise of professional skepticism, and conclusions reached thereon.
32. The IAASB acknowledged the view 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.
33. At the same time, the IAASB noted the requirement in paragraph 25(c)(i) of ISQM 2 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 the views of many respondents to ED-ISQM 2 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 was added in paragraphs A41-A43 of ISQM 2 to provide guidance in this regard.

Independence

Background and Summary of Comments Received on Exposure

34. Respondents noted that ED-ISQM 2 did not include the requirement in paragraph 21(a) of extant ISA 220 for the engagement quality reviewer, for audits of financial statements of listed entities, to consider the engagement team's evaluation of the firm's independence in relation to the audit engagement.

IAASB Decisions

35. The IAASB concluded that it would be appropriate, and in the public interest, for ISQM 2 to include a requirement, for all audits of financial statements, for the engagement quality reviewer to evaluate the basis for the engagement partner's determination that relevant ethical requirements relating to independence have been fulfilled. See the requirement and application material in paragraphs 25(d) and A44 of ISQM 2, respectively.

Group Audit Considerations

Background and Summary of Comments Received on Exposure

36. Respondents had comments or questions about how the requirements and application material in ED-ISQM 2 would be applied in the context of group audits.

IAASB Decisions

37. The IAASB discussed how an engagement quality review would be performed for a group audit engagement and determined that, 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 was added in paragraphs A32-A33 of ISQM 2 to provide guidance for group audit considerations in an engagement quality review.

Section E – Effective Date*Background and Summary of Comments Received on Exposure*

38. The three Quality Management exposure drafts were accompanied by a covering explanatory memorandum. The covering memorandum set out the IAASB's proposals regarding the effective date and the related implementation period for the three proposed standards, among other matters.
39. The IAASB's proposal for an 18-month implementation period was not generally supported by respondents from many stakeholder groups, particularly accounting firms, national auditing standard-setters and member bodies and other professional organizations. By contrast, regulators had mixed views and public sector organizations were mostly in favor of the proposed implementation period.
40. While respondents expressed varying views, some matters were clear. Comments in support of the proposal reflected matters raised by the IAASB in the covering memorandum – such as the need to balance the public interest of the proposals with giving firms and networks sufficient time to effectively implement the standards. Further, the concerns expressed by the IAASB in the covering memorandum about the need for adequate time for implementation were shared by respondents.
41. In addition to the above views, respondents also provided suggestions on alternative implementation periods. Of the suggested implementation periods provided, at least 24 months was the most common.

IAASB Decisions

42. Due to the COVID-19 pandemic, the project timelines of the Quality Management projects changed and the final approval of the Quality Management Standards was shifted to September 2020. Furthermore, the IAASB noted that the COVID-19 pandemic has a potential impact on implementation efforts as stakeholders have refocused their resources on dealing with the impact of COVID-19 and amending their existing quality control policies and procedures.
43. The IAASB concluded that an 18-month implementation period was not responsive to the concerns expressed in the comment letters and would not allow adequate time for a proper implementation of the standards. The IAASB was concerned that too short an implementation period would fail to achieve the public interest benefits that were envisioned by revising the Quality Management Standards.
44. The IAASB decided that the Quality Management Standards should have an effective date of December 15, 2022, as this appropriately balances the urgency of the reforms and the risks incurred in a rushed implementation. The Board agreed that early adoption of the quality management standards be permitted.
45. In respect of ISQM 2, the IAASB concluded that the standard is effective for:

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

Section F – Implementation Support Activities

46. The IAASB committed to perform activities to support awareness, understanding and effective implementation of ISQM 2. Further information on the implementation activities related to ISQM 2 is available here: [Implementation Plans for the Quality Management Standards](#).

The structures and processes that support the operations of the IAASB are facilitated by the International Federation of Accountants® or IFAC®.

The IAASB and IFAC do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

Copyright © December 2020 by IFAC. All rights reserved.

The 'International Auditing and Assurance Standards Board', 'International Standards on Auditing', 'International Standards on Assurance Engagements', 'International Standards on Review Engagements', 'International Standards on Related Services', 'International Standards on Quality Control', 'International Auditing Practice Notes', 'IAASB', 'ISA', 'ISAE', 'ISRE', 'ISRS', 'ISQC', 'IAPN', and IAASB logo are trademarks of IFAC, or registered trademarks and service marks of IFAC in the US and other countries.

For copyright, trademark, and permissions information, please go to [permissions](#) or contact permissions@ifac.org.



**International Auditing
and Assurance
Standards Board**

529 Fifth Avenue, New York, NY 10017
T + 1 (212) 286-9344 F +1 (212) 286-9570
www.iasb.org