

IAASB Guide Series: Applying the IAASB's Quality Management Standards to AI-Enabled Technological Tools

GUIDE 2

Firm-Level Quality Management Before Deployment

1. Purpose, Scope and How to Use This Guide

1. This guide builds on the common conceptual foundation in **Guide 1**. This guide applies that foundation to firm-level quality management before an AI-enabled technological tool, a particular functionality or a category of use is made available for engagement use. It focuses on pre-deployment design, evaluation and enablement.
2. ISQM 1 provides a comprehensive and adaptable foundation for this work. The use of AI does not require a separate system of quality management or a new quality management framework. The firm continues to apply the risk-based approach in ISQM 1 through the interconnected components of its system of quality management (SOQM).
3. AI-enabled technological tools may exhibit opacity, probabilistic behavior, adaptivity and autonomy to degrees that are more pronounced than in more traditional rules-based technological tools. These characteristics, considered alongside the tool's intended use and the other considerations in **Guide 1**, may give rise to new or different quality management challenges.
4. This guide also draws on relevant insights from established external frameworks and guidance on AI risk management, internal control, audit quality and related matters. The principal external publications and guidance drawn on in the guide, together with the short-form references used thereafter, are identified in footnote 1. These reference points provide practical insights. They do not replace, supplement or modify ISQM 1 or the applicable engagement standards.¹
5. The guide focuses on those components of a firm's SOQM for which focused guidance on quality management before deployment of AI-enabled technological tools may be useful. Because this guide addresses AI-enabled technological tools before they are made available for engagement use, it starts with the Resources component and then considers Governance and Leadership, Engagement Performance, Information and Communication, Relevant Ethical Requirements, and preparation for

¹ External publications and guidance referenced throughout this guide include:

- **Committee of Sponsoring Organizations of the Treadway Commission (COSO)**, *Achieving Effective Internal Control Over Generative AI* (February 2026) ([COSO GenAI guidance](#));
- **National Institute of Standards and Technology (NIST)**, *Artificial Intelligence Risk Management Framework (AI RMF 1.0)* (January 2023) ([NIST AI RMF 1.0](#)), and *Artificial Intelligence Risk Management Framework: Generative Artificial Intelligence Profile*, *NIST AI 600-1* (July 2024) ([NIST GenAI Profile](#));
- **Financial Reporting Council (FRC)**, *Generative and Agentic AI Guidance: Risks, Mitigations and Illustrative Examples* (March 2026) ([FRC GenAI guidance](#));
- **International Forum of Independent Audit Regulators (IFIAR)**, *Use of Technology in Audits – Innovation and Audit Quality 2026* (April 2026) ([IFIAR 2026 report](#)); and
- **International Organization of Securities Commissions (IOSCO)**, *Supervisory Toolkit for AI Use in Capital Markets* (May 2026) ([IOSCO Supervisory Toolkit](#)).

monitoring and remediation. This ordering is for navigation and does not imply a hierarchy among the components. The components remain interconnected, and a response may address quality risks relating to quality objectives in more than one component.

6. For purposes of this guide, deployment means making a tool, functionality or category of use available for engagement use. Deployment may be broad or limited, including through a controlled pilot. **Guide 3** addresses engagement-level use and oversight. **Guide 4** addresses post-deployment monitoring, change, revalidation, remediation and decommissioning.
7. This guide is not a chronological implementation manual. Design, evaluation and enablement may overlap. For purposes of this guide:
 - **Design and configuration** refer to choices the firm or, where relevant, its network controls about how the tool is set up to support its intended use, including matters such as workflow, information sources, permissions and human decision points;
 - **Evaluation** refers to the work performed and information used by the firm to obtain a sufficient basis for deciding whether and how the tool may be made available. Depending on the circumstances, this may include work performed by the firm or its network, information provided by a service provider about the tool or relevant service arrangement, independent assurance or certification, testing and pilot experience; and
 - **Enablement** refers to measures through which the firm designs and implements relevant responses to quality risks before use. These may include technical configuration, methodology, training, communications and approval conditions.
8. **Guide 2** is organized as follows:
 - [Section 2 - The Firm's Risk Assessment Process](#) - Considers how the six considerations in **Guide 1** inform the firm's risk assessment process before deployment.
 - [Section 3 - Resources](#) - Considers whether the technological tool is appropriate for its intended use and how it is evaluated and enabled.
 - [Section 4 - Governance and Leadership](#) - Considers firm-wide visibility, accountability, decision authority and network arrangements.
 - [Section 5 - Engagement Performance](#) - Considers firm-level policies or procedures for engagement use and the nature and extent of human involvement appropriate to the intended use and related quality risks.
 - [Section 6 - Information and Communication](#) - Considers the information that needs to flow into, across and out of the firm.
 - [Section 7 - Relevant Ethical Requirements](#) - Highlights ethical matters that may affect firm-level policies or procedures.
 - [Section 8 - Preparing for Monitoring and Remediation](#) - Identifies arrangements established before deployment to support subsequent monitoring.

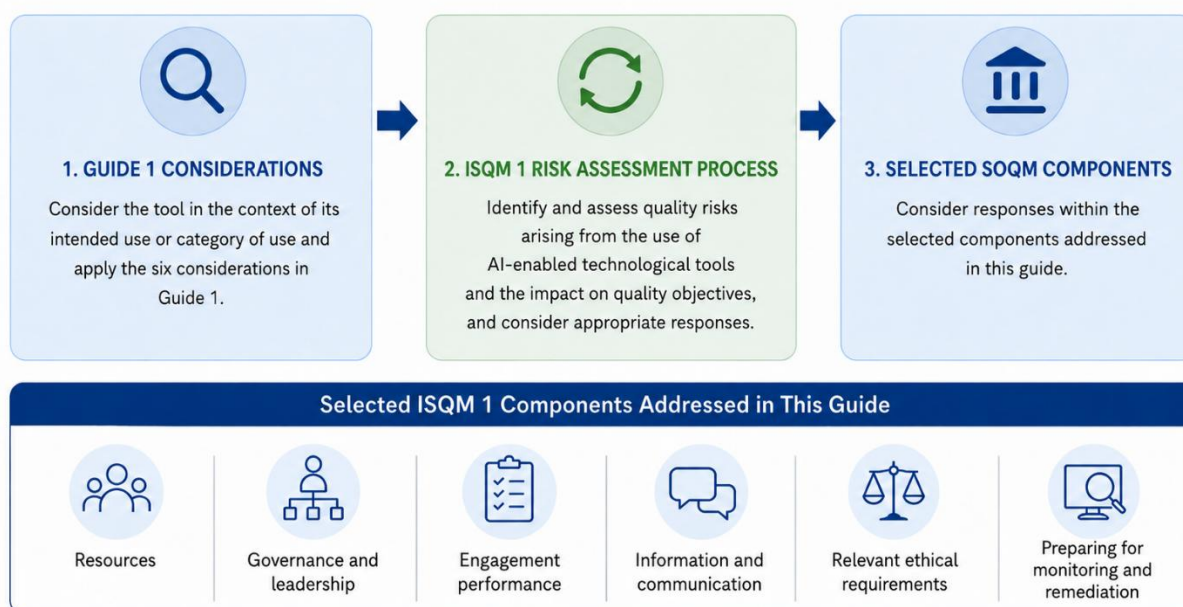
2. The Firm's Risk Assessment Process

2.1 Applying the Guide 1 Considerations Before Deployment

9. **Guide 1** explains how the firm considers a tool in the context of its intended use or category of use and applies six relevant considerations² to understand the circumstances³ relevant to identifying and assessing quality risks. This guide starts from that analysis and focuses on the implications for the firm's SOQM before the tool, functionality or category of use is made available for engagement use.
10. A circumstance identified by applying the six considerations in **Guide 1** may have implications for quality objectives in more than one component of the SOQM. For example, greater autonomy of the tool may affect governance and decision authority, design and configuration decisions relating to the tool, the nature and extent of human involvement in engagement performance, and the information that needs to be communicated to engagement teams.
11. **Figure 1** illustrates the pre-deployment focus of **Guide 2**. The guide applies the six considerations in **Guide 1** through the firm's ISQM 1 risk assessment process to consider responses within the selected SOQM components addressed in this guide.

Figure 1: How Guide 2 Applies the Guide 1 Considerations Before Deployment

This guide applies the six considerations in Guide 1 through the firm's ISQM 1 risk assessment process to consider responses within the selected SOQM components addressed in this guide.



² The six considerations address: (1) functionality and relevant AI characteristics; (2) the significance of outputs or actions and extent of reliance; (3) evaluation and human involvement; (4) development, configuration, maintenance and information available; (5) access, hosting, information flows and information used; and (6) scale and breadth of intended use. **Guide 1** explains that the considerations are applied together and are not a separate risk framework, exhaustive list or mandatory checklist.

³ "Circumstances" is used as described in **Guide 1**, paragraph 31. See also ISQM 1, paragraphs 25(a)–(b) and A45–A48.

12. The firm considers the reasons for its quality-risk assessment rather than treating individual considerations outlined in **Guide 1** in isolation. For example, the fact that the outputs of the tool can be readily evaluated may affect quality risks relating to the performance of the tool, but does not by itself address other matters such as the processing of sensitive information or unclear responsibilities among the firm, its network and service providers. Conversely, a secure access arrangement does not establish that the tool is appropriate for its intended use. These concepts are further explored in **Section 3**.

2.2 Applying the Process to Common and Use-Specific Matters

13. An AI-enabled technological tool may support several functions or uses. Some circumstances relevant to the firm's risk assessment may be common across the tool, while others may depend on the particular functionality or intended use. For example, the way a tool is provided and accessed may be common across several uses, while the significance of its outputs and the human involvement needed may differ from one use to another.
14. The firm may therefore build on information, assessments or responses that remain relevant across reasonably similar uses. Additional consideration may be needed when something changes in a way that affects the quality risks or the reasons for their assessment.
15. This may lead to different responses within the same technological environment. A broad general-purpose AI application may be addressed through common firm-level policies or procedures together with guidance for particular categories of use. A defined application or agent whose outputs or actions are expected to have greater significance to engagement procedures, evidence or judgments may call for more specific responses, such as design or configuration measures, testing, methodology or approval conditions.
16. The firm's risk assessment process remains continual and iterative. **Guide 4** addresses how information arising after deployment may indicate that an earlier assessment or response needs to be revisited.

3. Resources

3.1 Why the Technological Tool's Elements and Arrangements Matter

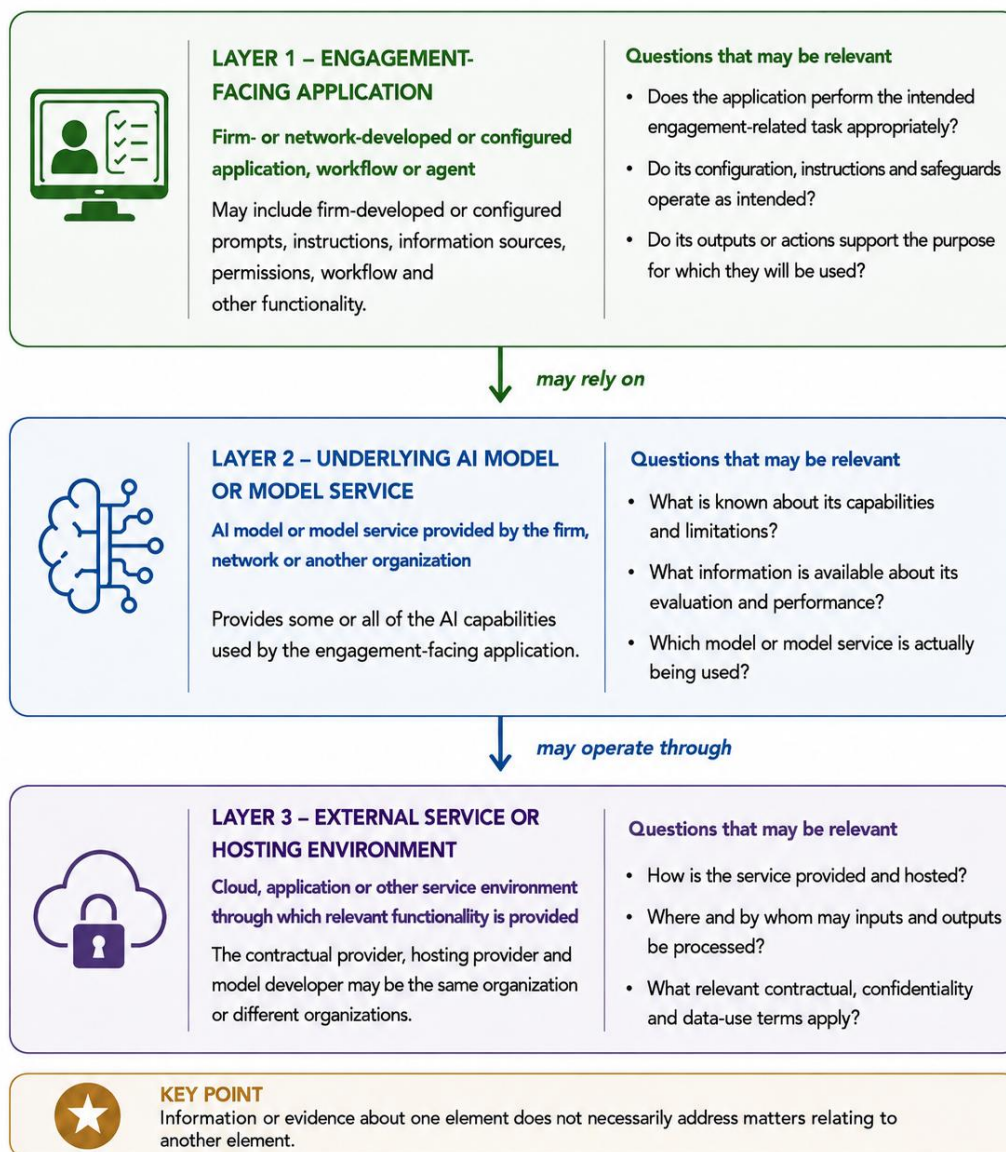
17. Paragraph 32(f) of ISQM 1 requires the firm to establish a quality objective that appropriate technological resources are obtained or developed, implemented, maintained and used. Paragraph 32(h) addresses the appropriateness of resources obtained from service providers. Paragraph A100 identifies matters the firm may consider when obtaining, developing, implementing and maintaining an IT application. These matters include:
 - whether data inputs are complete and appropriate,
 - whether confidentiality is preserved,
 - whether the application operates as designed and achieves its intended purpose, and
 - whether its outputs achieve the purpose for which they will be used.⁴

⁴ ISQM 1, paragraphs 32(f) and 32(h), and A98–A108.

The central quality-management question for purposes of this section is therefore whether the AI-enabled technological tool is appropriate for its intended use.

18. An AI-enabled technological tool may comprise multiple interdependent elements, some of which may be developed, hosted or controlled by different organizations. The firm need not understand every technical dependency. However, the firm may consider whether it has a sufficient understanding of the elements and relationships relevant to the intended use to assess whether the tool is appropriate for its intended use and to identify related quality risks. A change to one element may affect the tool even when the firm has made no change to the engagement-facing application. **Figure 2** illustrates one possible way in which multiple elements of the tool may be layered.

Figure 2. Illustrative AI-Enabled Technological Tool: One Application, Multiple Elements



This figure is illustrative. Not every AI-enabled technological tool will involve all three illustrated elements, and the elements may not map to the organizations involved. The figure is not intended to prescribe architecture or allocation of responsibilities.

19. The different elements of an AI-enabled technological tool, such as those illustrated in **Figure 2**, may be developed, provided or controlled through different arrangements. For example, an engagement-facing application may be developed or configured by the firm or its network, while the underlying AI model or hosting environment is provided by an external service provider. The arrangements that apply to relevant elements may affect the identification and assessment of quality risks and the responses that may be appropriate. The table below illustrates three arrangements that may apply to one or more elements of a tool. These are not fixed categories for classifying the tool as a whole; a single tool may combine elements subject to different arrangements.

Illustrative Arrangements for Tool Elements

Arrangement	What it may look like	Quality-management focus
Firm- or network-developed or configured elements (see Section 3.2)	The firm or its network develops or materially configures one or more elements of the tool, such as an application, agent or workflow, and controls significant aspects of their design, configuration or evaluation.	Designing and evaluating the relevant elements and considering their effect on whether the tool is appropriate for its intended engagement use, including relevant limitations, information sources, workflow and human decision points.
Elements developed or provided by an external service provider (see Section 3.3)	One or more relevant elements, such as an AI model, application, hosting environment or other service, are obtained from an external provider, and significant development, operation or evaluation activities occur outside the firm or its network.	Understanding the relevant service arrangement and available provider information and independent evidence, and determining what additional firm evaluation or other responses are needed for the relevant elements and the resulting tool.
Hybrid or layered arrangement (see Section 3.4)	A firm- or network-developed or configured application or workflow uses an externally provided AI model, cloud service or other element.	Understanding the relevant elements, the arrangements that apply to them and their interaction. A change to, or evidence about, one element does not necessarily address another element or the resulting tool as a whole.

20. Where relevant activities are performed by the firm's network, the member firm also applies the requirements in ISQM 1 addressing network requirements or network services. Among other matters, the member firm determines how those requirements or services are relevant to and taken into account in its SOQM, including how they are to be implemented, and evaluates whether they need to be adapted or supplemented for its circumstances.⁵
21. In applying the six considerations in **Guide 1** to the Resources component, the firm considers the relevant elements of the tool, the arrangements through which those elements are developed, provided or controlled, and the interaction between them. Quality risks may commonly relate to performance and intended use; development, external dependencies and change; access, hosting and information use; and the information and evidence available to the firm. The four categories

⁵ ISQM 1, paragraphs 48–49 and A175–A180.

below are not additional considerations or a separate risk framework. They illustrate how quality risks may arise when the **Guide 1** considerations are applied in the circumstances.

Illustrative Quality Risks

Depending on the firm's circumstances, AI-enabled technological tools may give rise to quality risks such as:

1) Performance and intended use.

The tool does not perform appropriately for its intended engagement use. For example, its outputs or actions may be inaccurate, incomplete or variable, or it may omit relevant information. These matters may be more difficult to evaluate where performance is affected by opacity, probabilistic behavior or context, or where the effectiveness of the tool depends on expected human involvement.

2) Development, external dependencies and change.

Changes to externally controlled elements of the tool are not identified or appropriately addressed. An engagement-facing application may use an externally developed AI model, cloud or AI service, information source or other connected system. Changes to those elements may alter the functionality, limitations or performance of the resulting tool even when the firm or network has not changed its own application or workflow.

3) Access, hosting and information use.

Firm or engagement information is accessed, processed, retained, transferred or used inappropriately because relevant aspects of the service or hosting arrangement are not sufficiently understood or addressed. Depending on the arrangement, information submitted to the tool may be accessible to other organizations or used for purposes such as service improvement or AI model training.

4) Information and evidence available to the firm.

The firm concludes that the tool is appropriate for its intended use based on information or evidence that does not sufficiently address the tool or relevant element being evaluated. For example, information from a service provider, network or independent source may not address the relevant AI model, service, configuration, period or intended use, or may contain exclusions, exceptions or other limitations.

22. External AI risk-management and audit-quality publications highlight similar issues when organizations evaluate AI-enabled technological tools, their relevant elements and the arrangements through which those elements are developed, provided or controlled.



External Insights: Understanding AI-Enabled Technological Tools, Elements and Arrangements⁶

NIST emphasizes understanding the intended application and capabilities of an AI system, including its limitations, and considering risks arising from third-party software, data and other components.

COSO highlights reduced visibility that may arise when GenAI is externally provided and notes that changes to models, prompts, retrieval sources and integration points can alter the risk profile.

IFIAR emphasizes transparency and reliable performance in the development or acquisition of technological resources and effective coordination between networks and member firms.

FRC identifies deficient outputs, misuse of outputs and non-compliant methodology among the risks associated with GenAI-enabled audit tools and discusses design, testing or certification, human review and governance as possible mitigations.

23. These external approaches provide practical insights into matters a firm may consider in understanding and evaluating an AI-enabled technological tool, including its relevant elements and the arrangements through which those elements are developed, provided or controlled. They do not replace, supplement or modify ISQM 1. The sections that follow consider how possible responses may differ depending on the relevant elements of the tool and the arrangements that apply to them.

3.2 Firm- or Network-Developed or Configured Elements

24. When the firm or its network develops or materially configures one or more elements of an AI-enabled technological tool, it has a direct opportunity to address identified quality risks through the design or configuration of those elements. The firm may therefore use design or configuration performed by it or its network as part of its response to identified quality risks and evaluate whether the resulting tool, as configured, is appropriate for its intended engagement use.
25. The starting point is the intended engagement use and the reasons for the related quality-risk assessment. Those reasons inform choices about what the tool is expected to do, what remains the responsibility of personnel, the information it uses, and the outputs or actions it may produce. Responses may then be implemented through choices about task boundaries, information sources, prompts or other instructions, permissions, workflow, safeguards and human decision points.
26. Design choices may also depend on one another. For example, incorporating human review into a workflow may address a quality risk only if the reviewer has the information and competence needed to identify a deficiency and the volume and complexity of the outputs make review practicable. Similarly, restricting a tool to approved information sources may reduce some risks but does not itself establish that those sources are appropriate for the contemplated task.

⁶ See **NIST AI RMF 1.0**, particularly MAP 2–4; **COSO GenAI guidance**, particularly its discussion of third-party dependencies and significant change; **IFIAR 2026 report**, pp. 4–5; and **FRC GenAI guidance**, pp. 4–5.

Illustrative Application: From Quality Risk to Response

Assume the firm identifies a quality risk that an AI-enabled financial statement disclosure-review application may fail to identify relevant missing or inconsistent disclosures and that such omissions may be difficult for engagement personnel to detect.

Possible responses may include:

- constraining the application to approved financial reporting and firm methodology sources;
- configuring its instructions, retrieval, workflow and human review points to address the identified risk;
- evaluating the resulting application using representative cases, including financial statements containing known disclosure deficiencies, to assess both the matters identified and significant omissions or false negatives; and
- modifying the design, narrowing the intended use or introducing additional human or other procedures if evaluation identifies weaknesses.

Evaluating Whether the Tool Is Appropriate for Its Intended Use

27. Design and configuration do not, by themselves, establish that the resulting tool is appropriate for its intended engagement use. The firm evaluates the tool as configured, drawing on work performed by its network where relevant, and considers whether it operates as intended and whether its outputs or actions support the purpose for which they will be used. Evaluation may draw on design and development information, specialist input, information about relevant elements, testing and pilot experience. Testing may be an important part of that evaluation but is not the whole of it.
28. Testing is directed to the intended use and the reasons for the related quality-risk assessment. Depending on the circumstances, it may include representative engagement scenarios, cases for which the expected result is sufficiently established, difficult or unusual cases, known areas of potential weakness and repeated testing where variability matters. It may also address intermediate workflow steps, safeguards and the operation of expected human involvement.
29. Because an AI-enabled technological tool may produce plausible outputs while omitting relevant information, testing may also need to consider what the tool fails to produce. In the disclosure-review example, every matter identified by the application could be appropriately described while the application nevertheless fails to identify a relevant missing disclosure. The firm or network may therefore use cases containing known disclosure deficiencies and consider both the accuracy of identified matters and significant omissions or false negatives.
30. Evaluation may lead to further design, configuration or other responses rather than simply a binary decision about whether to make the tool available. For example, if the disclosure-review application performs poorly for a particular class of disclosures, the firm or network may revise its instructions or information sources, introduce an additional rules-based check, narrow the intended use, require specified additional human procedures or perform further testing before deployment.



External Insight: Design and Evaluation May Inform One Another⁷

The FRC's GenAI guidance similarly emphasizes that design, testing or certification and human review may need to be considered together. It also illustrates how evaluation can identify matters that lead to further changes in design before deployment.

When Relevant Work Is Performed by the Network

31. The preceding discussion applies whether the relevant development, configuration, evaluation and testing activities are performed directly by the firm or centrally by its network. Where the network has performed relevant common work, the member firm may build on that work rather than re-perform it. The member firm nevertheless applies the ISQM 1 requirements addressing network requirements or network services, including considering whether the common work needs to be adapted or supplemented for its circumstances.
32. Central procurement by a network does not, by itself, make the relevant elements network-developed. If a network obtains an externally developed application or AI model from a service provider, **Section 3.3** applies to those externally developed elements. Where the network adds its own configuration or workflow, or performs its own methodology or testing work, the resulting arrangement may involve both network-controlled and externally provided elements.

3.3 Elements Developed or Provided by External Service Providers

33. Paragraph 32(h) of ISQM 1 establishes a quality objective addressing the appropriateness of resources obtained from service providers. The firm's use of a service provider does not transfer its responsibility for its SOQM. Relevant development, operation or evaluation activities relating to one or more elements of an AI-enabled technological tool may, however, be performed outside the firm or its network. The firm therefore considers what it needs to understand about the service arrangement and what provider information, independent evidence or additional firm work is needed in evaluating whether the resulting tool is appropriate for its intended use.⁸

Understanding the Service Arrangement

34. AI-enabled technological tools may be provided through different service arrangements. A firm may obtain access to an AI-enabled application or model directly from the organization that developed and provides it. Alternatively, the firm may obtain access through an enterprise cloud or application environment operated by another service provider, through which an externally developed model is made available. An engagement-facing application may also depend on models, hosting or other services supplied by several organizations.
35. The firm therefore focuses on the actual service arrangement rather than inferring responsibilities or information flows from the product name, contracting party or model developer alone. Depending on the circumstances, relevant matters may include which organizations provide or operate significant

⁷ See **FRC GenAI guidance**, pp. 30–33 and illustrative example 2, “Contract Review,” pp. 49–59. The guidance discusses evaluation of prompts, information sources, system architecture and component logic; testing of expected, edge, diverse and known-problem cases; the relationship between testing and human review; and iterative interaction between system design and certification.

⁸ ISQM 1, paragraph 32(h) and paragraphs A105–A108.

elements of the tool, where relevant processing occurs, how firm or engagement information may be accessed, retained or used, and how significant externally controlled changes will be communicated.

36. The firm need not trace every technical dependency within the service arrangement. It focuses on the elements and relationships relevant to the intended use and the reasons for its quality-risk assessment. Information about one element does not necessarily address another. For example, evidence about controls over a hosting environment may not address the capabilities or performance of the underlying AI model. Conversely, information about the model may not address how firm or engagement information is processed within the particular service arrangement.



External Insights: Third-Party Dependencies and Change⁹

NIST emphasizes considering risks arising from third-party generative AI technologies and other externally provided components.

COSO similarly highlights reduced visibility arising from external dependencies and the potential effect of changes to models, information sources and integration points.

These approaches provide practical insight into why understanding relevant external dependencies and changes may be important when evaluating an AI-enabled technological tool.

Service-Provider Information and Independent Evidence

37. The firm may use both service-provider information and independent evidence in developing its understanding and evaluating the tool. Service-provider information may include contractual and data-use information, technical documentation about the model or system, provider evaluation or testing results, identified limitations and information about versions or significant changes. Independent evidence may include assurance reports, certifications, independent evaluations or similar evidence from a third party, including where that evidence is commissioned or made available by the service provider. The two may address different matters, and no particular source is necessarily required or, by itself, sufficient. The firm considers what provider information and independent evidence actually establish.
38. For an externally developed AI model, provider information may address its stated capabilities and limitations, evaluation results, identified risks and mitigations, and model or version changes. Information about development or training may also be available. The nature and extent of available information will vary. The firm considers the information reasonably available together with other evidence and responses relevant to the contemplated use.
39. For example, a SOC 2 Type 2 report¹⁰ may provide evidence about the design and operating effectiveness, over a specified period, of controls relevant to matters such as security, confidentiality or other applicable criteria. It does not by itself establish that an AI-enabled technological tool

⁹ See **NIST GenAI Profile**, particularly Appendix A.1.3 on third-party generative AI technologies; **NIST AI RMF 1.0**, particularly MAP 2–4 and MANAGE 3; and **COSO GenAI guidance**, particularly its discussion of third-party dependencies and significant change.

¹⁰ A System and Organization Controls 2 (SOC 2) examination is performed by an independent CPA under standards of the American Institute of Certified Public Accountants (AICPA). A Type 2 report addresses the suitability of the design and operating effectiveness of controls over a specified period against applicable Trust Services Criteria. The criteria may address security and, depending on the scope of the examination, availability, processing integrity, confidentiality or privacy.

produces outputs appropriate for an engagement use. Similarly, third-party certification against an applicable ISO/IEC management-system standard¹¹ may provide evidence that a management system conforms with specified requirements within a defined scope. It does not by itself establish the performance of a particular AI model, feature or configuration.

40. The firm therefore considers the scope of the available provider information and independent evidence. This includes whether the relevant service, model, feature, configuration, region and period are addressed; whether another relevant service provider falls outside that scope; whether exceptions or limitations were identified; and whether the firm is expected to implement particular controls or other actions.

Illustrative Application: What Does the Available Evidence Establish?

Assume the firm's AI-enabled financial statement disclosure-review application uses an externally developed AI model made available through an enterprise service environment.

The firm may have information from the model developer about the model's capabilities, limitations and evaluation results; independent assurance or certification relating to specified controls over the service environment; and information about the contractual and data-use terms applicable to the enterprise arrangement.

Those sources may provide relevant evidence about different elements of the tool, such as those illustrated in **Figure 2**. They do not necessarily establish that the resulting application, using the firm's approved financial reporting and methodology sources and configuration, appropriately identifies relevant missing or inconsistent disclosures.

Additional evaluation by the firm or its network may therefore focus on the resulting application and its intended engagement use rather than re-performing work over matters adequately addressed by the available evidence.

Information Gaps, Adverse Information and Additional Firm Work

41. An information gap is different from information indicating a potential problem. An information gap exists when the firm does not have sufficient information about a matter relevant to its quality-risk assessment. By contrast, a known limitation, control exception, significant incident or adverse evaluation result provides information that may affect the firm's assessment of the tool.
42. Neither an information gap nor adverse information automatically means that the tool cannot be made available. Depending on the circumstances, the firm may obtain information from another source, perform additional evaluation or testing, modify the configuration or service arrangement, restrict the information processed, narrow the intended use or establish additional human or technical responses. A matter may, however, be sufficiently fundamental to the contemplated use that the firm cannot obtain a sufficient basis to make the tool available.
43. The firm is not expected to re-perform every development or evaluation activity undertaken by a service provider. It considers what the available provider information and independent evidence establish and performs additional work to the extent needed to address matters that remain relevant to its quality-risk assessment. A service provider's evaluation of an AI model may be extensive while

¹¹ Examples of relevant ISO/IEC management-system standards include ISO/IEC 27001, addressing information security management systems, and ISO/IEC 42001, addressing artificial intelligence management systems.

still not establishing that the tool incorporating that model, as it will be configured and made available for engagement use, is appropriate for its intended engagement use.

44. Conversely, where available information or evidence adequately addresses a matter relevant to the firm's quality-risk assessment, the firm may build on that work. For example, independent evidence addressing specified controls over a service environment need not be recreated merely because the tool uses AI. Additional firm work may instead focus on matters not addressed by that evidence, such as whether the resulting tool is appropriate for its intended engagement use.
45. The same principles apply when the service arrangement is less complex. A firm accessing an AI service directly from the organization that developed and operates it may deal with fewer parties, but it still considers the applicable service terms, relevant provider information and independent evidence, and what additional evaluation or other responses are needed for the intended use.

3.4 Hybrid and Layered Arrangements

46. Many AI-enabled technological tools combine elements developed or configured by the firm or its network with externally provided models, applications or services. In these circumstances, the principles in **Sections 3.2 and 3.3** operate together. The firm focuses on the elements and relationships relevant to the intended use and the reasons for its quality-risk assessment rather than seeking to characterize the tool as wholly firm-developed or wholly service-provider-developed.
47. A layered arrangement does not mean that every element needs to be separately assessed. The firm considers the elements and interactions that are relevant to the identified quality risks. Information or evaluation relating to one element may also contribute to the evaluation of another, but the firm considers what that work actually establishes for the resulting tool.

Building on Work That Remains Relevant

48. The firm may build on information, assessments and responses relating to common elements of a technological environment when they remain relevant. Adding new functionality, connecting a new information source or considering a new intended use does not, by itself, mean that earlier work needs to be repeated. Additional consideration focuses on what is new or different and whether the change affects conclusions previously reached or responses already designed.

Illustrative Application: Focusing on What Has Changed

Assume the firm has already evaluated an enterprise AI environment, including the relevant service arrangement, data-use terms and available information about the externally provided AI model. The firm then configures a disclosure-review application that connects the environment to approved financial reporting and firm methodology sources.

If the previously evaluated aspects of the environment remain unchanged, that work may continue to provide a relevant basis. Additional evaluation may focus on the new information sources, how information is retrieved, the configuration, and whether the resulting application appropriately identifies relevant missing or inconsistent disclosures. The firm also considers whether the new connection changes earlier conclusions about information flows, provider access or retention.

49. Similarly, an enterprise environment may provide access to several externally developed AI models under common service arrangements. Work over genuinely common aspects of the environment may

remain relevant when another model is considered. Conclusions about the capabilities, limitations or performance of one model, however, are not automatically applicable to another.

50. Changes to the service arrangement, AI model, information source, prompts or other configuration, connected systems, functionality or intended use may therefore have different implications. The firm considers whether a change affects the circumstances underlying its quality-risk assessment, the conclusions reached in its evaluation or the responses previously designed.
51. **Guide 4** addresses how changes and other information arising after deployment may trigger monitoring, reassessment, revalidation or other action.

3.5 Making the Tool Available: Approval Conditions and Enablement

52. The firm's pre-deployment work informs its decision about whether and how an AI-enabled technological tool is made available for engagement use. Depending on the circumstances, the firm may make the tool available for the contemplated use, make it available subject to specified conditions, conduct a controlled pilot, defer deployment pending further work or decide not to make it available.¹²
53. The existence of a known limitation does not necessarily mean that the tool is inappropriate for every use. A limitation may instead affect the purposes for which the tool is made available, the functionality that is enabled, the information it may process, the users who may access it, the human involvement required or other conditions governing its use. Conversely, a limitation or information gap may be sufficiently fundamental that the firm cannot obtain a sufficient basis to make the tool available for the contemplated use.

Approval Conditions

54. Approval conditions are one type of response to identified quality risks. As described in **Guide 1**, they are conditions established by the firm governing whether and how an AI-enabled technological tool or particular functionality may be made available or used. The term does not imply that ISQM 1 requires a separate approval document or prescribed approval process.
55. Approval conditions may be implemented through technical configuration, policies or procedures, methodology or a combination of these. For example, the firm may restrict access to specified users, disable particular functionality, limit the information that may be processed, require authorization before an action is taken, or establish methodology addressing corroboration, consultation or other human involvement.
56. The nature and specificity of approval conditions are responsive to the quality risks and the reasons for their assessment. For a broad general-purpose AI environment, attempting to prescribe every permitted or prohibited prompt may be impracticable. Principles-based boundaries, restrictions on information use and circumstances requiring consultation or further approval may be more appropriate. A defined application or agent whose outputs or actions are expected to have greater significance to engagement procedures, evidence or judgments may warrant more specific conditions relating to functionality, information sources, users, human decision points or permitted actions.

¹² ISQM 1, paragraphs 32(f), A100 and A101.

Illustrative Application: From Evaluation to Approval Conditions

Assume evaluation of the firm's AI-enabled disclosure-review application indicates that it performs appropriately for most contemplated uses but is less reliable for a particular category of complex disclosures.

The firm might respond by:

- narrowing the approved use so that the application is not relied on for that category of disclosure;
- requiring specified additional procedures or consultation when that category is present;
- modifying the information sources, instructions or workflow and performing further evaluation before broader use; or
- initially making the application available through a controlled pilot.

Evaluation therefore informs not only whether the tool is made available, but also the conditions under which it is made available.

Enablement

57. Enablement puts the deployment decision and related responses into operation. Depending on the circumstances, this may include configuring access and permissions, enabling or disabling functionality, connecting approved information sources, developing methodology or guidance, providing training or communications, establishing consultation or support arrangements, or making approved prompts, templates or other intellectual resources available.
58. Not every activity needed to make an AI-enabled technological tool operational is necessarily a response to a quality risk. Ordinary access instructions or technical support, for example, may be necessary regardless of the firm's quality-risk assessment. An enablement measure forms part of a response within the SOQM when it is designed and implemented to address one or more identified quality risks.
59. Approval conditions and enablement measures may operate across different components of the SOQM. For example, a technical restriction may form part of the Resources response, methodology or required human review may relate to Engagement Performance, and communications about approved uses and limitations may relate to Information and Communication. The components remain interconnected.
60. Once the tool is made available, those firm-level policies or procedures and resources provide the framework within which engagement teams use it. **Section 5** considers relevant implications for the Engagement Performance component of the SOQM. **Guide 3** addresses the application of firm policies or procedures and the use and oversight of AI-enabled technological tools in individual engagements.

4. Governance and Leadership**4.1 Quality Risks in an AI-Enabled Environment**

61. The Governance and Leadership component of ISQM 1 establishes quality objectives addressing, among other matters, the firm's culture, leadership responsibility and accountability, organizational structure, and the importance given to quality in strategic decisions and actions. It also addresses

whether the assignment of roles, responsibilities and authority is appropriate to support the design, implementation and operation of the SOQM.¹³

62. AI-enabled technological tools may make achievement of these quality objectives more challenging. New tools, functionality or uses may be introduced or expanded quickly and across different parts of the firm. Relevant decisions and information may also be distributed among technology, methodology, quality and other functions, or among the firm, its network and service providers.

Illustrative Quality Risks

Depending on the firm's circumstances, these conditions may give rise to quality risks that:

- 1) **Firm-wide visibility is insufficient.**
AI-enabled technological tools or uses may be made available, expanded or materially changed without timely visibility to those responsible for the SOQM, with the result that relevant quality risks are not identified or reassessed, or responses are not modified, when needed.
- 2) **Accountability is fragmented.**
Responsibilities and decision authority may be divided among different functions or organizations so that no individual or group has sufficient information and authority to coordinate, challenge, escalate or make relevant decisions.
- 3) **Quality does not receive appropriate weight.**
Strategic or operational pressure to adopt or scale AI may result in quality considerations not being given appropriate weight in deployment decisions or the allocation of resources.
- 4) **Relevant information does not reach those who need it.**
Information about significant limitations, changes or issues may not reach those responsible for governance or other quality-management decisions on a timely basis.

63. Leading external publications address similar governance challenges through recurring approaches aimed at improving visibility, ownership and coordinated oversight.

¹³ ISQM 1, paragraphs 20–22, 28 and A55–A61.

External Insights: Possible Responses to Governance Risks¹⁴

NIST emphasizes clear roles and lines of communication, executive leadership responsibility for AI-related risk decisions, and mechanisms to inventory AI systems according to organizational risk priorities.

COSO emphasizes clear ownership of AI systems and illustrates the use of cross-functional governance to consider AI initiatives, emerging risks and significant decisions. Its implementation roadmap also includes identifying and inventorying GenAI use cases.

IOSCO has observed centralized, cross-functional governance structures used to coordinate AI oversight across firms. It has also identified inventories or classifications of AI use cases as tools that can support governance.

Prudential model-risk management guidance provides a useful analogy. Across financial institutions, enterprise-level model inventories are commonly used to support ownership, approval, risk-based oversight and reporting. Although models are not the same as AI-enabled technological tools, the underlying governance insight is relevant: effective oversight depends on having sufficient visibility over what is being used, who is accountable for it and where significant risk may reside.

64. These external approaches are not requirements of ISQM 1. They illustrate how other frameworks respond to governance challenges similar to those that may give rise to quality risks in the firm's SOQM. A firm may draw on those insights when designing responses that are based on, and responsive to, the reasons for its quality-risk assessment.

4.2 Firm-Wide Visibility, Accountability and Decision Authority

65. If insufficient firm-wide visibility or fragmented accountability gives rise to a quality risk, the firm may determine that an appropriate response is to assign an individual, an existing governance body or a cross-functional group a firm-wide oversight role. Although ISQM 1 does not require a separate AI committee, such a response may provide sufficient visibility across significant AI-enabled technological tools and uses and enable common or emerging issues to be considered in a coordinated manner. For example, the assigned individual or group may bring together information from technology, methodology, quality and other relevant functions to support decisions about the approval, restriction, suspension or reconsideration of particular tools or uses.
66. Firm-wide oversight does not mean that all decisions need to be centralized. Particular tools, functionalities or categories of use may have designated owners, while technology, methodology, quality and other specialists contribute relevant expertise. The quality-management concern is not decentralization itself, but gaps or ambiguity in accountability. A response to that risk may therefore include clarifying who has authority to approve, restrict, suspend or reconsider particular uses when necessary.
67. ISQM 1 does not require the firm to maintain an AI inventory or register. However, where insufficient visibility over AI-enabled technological tools or uses gives rise to a quality risk, an inventory, register or similar record may be an appropriate response. It might identify, for example, what has been made available, the use or uses for which it has been made available, who is accountable for it and which uses may warrant greater oversight. Existing technology, methodology, procurement or quality-

¹⁴ See **COSO GenAI guidance**, pp. 9 and 18–19; **NIST AI RMF 1.0**, particularly GOVERN 1.6 and GOVERN 2.1–2.3; and **IOSCO Supervisory Toolkit**, pp. 30–31 and Table 2.

management records and processes may provide a structure that the firm can adapt or build on for this purpose.

4.3 Network and Member Firm Responsibilities

68. Network arrangements may make firm-wide visibility and accountability more challenging because relevant information can reside at different levels. A network may have the clearest information about the design, testing or service arrangements for a tool. The member firm may have the clearest information about local use, legal or regulatory requirements and issues identified in practice.

Illustrative Quality Risk: Network and Member Firm Information Gaps

Where relevant information does not flow effectively between the network and member firm, the member firm may not have sufficient information about the tool, its approved uses or significant limitations to determine how network requirements or network services are relevant to and taken into account in its SOQM, including whether they need to be adapted or supplemented for its circumstances.

69. IFIAR has observed that responsibilities for technological tools differ across global networks and member firms. It has also noted that fragmented monitoring and evaluation may result in incomplete coverage and make it difficult to obtain a comprehensive view of tool use and performance. IFIAR therefore highlights the importance of coordination and transparency across oversight arrangements.¹⁵
70. As discussed in **Section 3**, a network may perform relevant common work relating to an AI-enabled technological tool. Centralized work may promote consistency and avoid unnecessary duplication, but it does not transfer the member firm's responsibility for its SOQM or for determining how network requirements or network services are taken into account in its circumstances.¹⁶
71. A response to related governance risks may therefore include arrangements that give the member firm sufficient insight into the work performed by the network, the uses covered and significant limitations identified. Such arrangements may also provide for relevant information to flow from the member firm to the network when local experience identifies unexpected behavior, limitations, emerging uses or other matters that may affect the network's work or the member firm's responses. **Guide 4** addresses how information arising after deployment feeds back into the firm's quality-management processes.

5. Engagement Performance

5.1 Firm-Level Policies or Procedures for Engagement Use

72. The Engagement Performance component of ISQM 1 establishes quality objectives addressing, among other matters, engagement teams understanding and fulfilling their responsibilities, appropriate direction, supervision and review, and the exercise of appropriate professional judgment and, when applicable to the type of engagement, professional skepticism. Before an AI-enabled technological tool is made available for engagement use, the firm considers whether and how the

¹⁵ See IFIAR 2026 report, pp. 8–9.

¹⁶ ISQM 1, paragraphs 48–52 and A175–A186.

contemplated use gives rise to or changes quality risks relating to those objectives and what policies or procedures are appropriate.¹⁷

73. Those policies or procedures may address how the tool is to be used consistently with the intended use evaluated by the firm and the conditions reflected in its deployment decision, including any approval conditions established under **Section 3.5**. Depending on the quality risks, they may address the purpose of the engagement procedure in which the tool is used, the information provided to the tool, the role and significance of its outputs or actions, required human involvement, follow-up or corroboration, consultation or escalation, and documentation. They establish a firm-level framework for use of the tool while allowing engagement teams to respond to the nature and circumstances of the individual engagement.¹⁸

Illustrative Quality Risks

Depending on the firm's circumstances, the use of an AI-enabled technological tool in engagement performance may give rise to quality risks such as:

- 1) **The tool is used outside the intended use or conditions established by the firm.**
Engagement personnel use the tool for a purpose, with information, functionality or in circumstances that were not contemplated when the firm evaluated and made it available, such that relevant firm responses do not appropriately address the use.
- 2) **The role or significance of the tool's output or action is misunderstood.**
Engagement personnel place inappropriate reliance on an output or action because its relationship to the purpose of the engagement procedure, its limitations, or what further work is required is not sufficiently clear. The breadth, speed or apparent sophistication of the tool may contribute to inappropriate reliance.
- 3) **Expected human involvement does not effectively address the quality risk.**
Required review, challenge or authorization does not operate effectively because personnel do not have sufficient competence, information, authority or time, or because the type of deficiency or omission is not reasonably capable of being identified through the contemplated human involvement.

74. An AI-enabled technological tool can operate as designed and be appropriate for its intended use as contemplated by the firm, yet still be used on an engagement in a way that does not support the purpose of an engagement procedure. Firm methodology or other policies or procedures may therefore explain the purpose for which the tool is used, the role of its output or action, what that output or action does and does not establish, and what further work, consultation or documentation may be needed.
75. The breadth or apparent comprehensiveness of processing does not, by itself, establish that the resulting information appropriately supports the purpose of the engagement procedure. For example,

¹⁷ ISQM 1, paragraph 31 and paragraphs A75–A85.

¹⁸ For audits of financial statements, see ISA 220 (Revised), paragraph 4 and paragraphs A6–A11 and A64–A70. Paragraph 4 explains that the engagement team implements the firm's responses to quality risks that are applicable to the audit engagement and, given the nature and circumstances of the engagement, determines whether additional engagement-level responses are needed. Paragraph A65 explains that firm policies or procedures may include required considerations or responsibilities when engagement teams use firm-approved technological tools. Paragraph A67 explains that firm policies or procedures may prohibit certain IT applications or features or require specified actions before an application that is not firm-approved is used.

processing an entire population does not compensate for criteria that are poorly aligned to that purpose, relevant information that is omitted, or results that engagement personnel cannot meaningfully evaluate.

5.2 Nature and Extent of Human Involvement

76. Human involvement may take different forms. Depending on the quality risk and the intended use, it may include directing the task, evaluating source information, reviewing or challenging outputs, authorizing actions, investigating exceptions, overriding or stopping the tool, or deciding how the result affects the engagement.
77. A policy or procedure requiring human review does not, by itself, establish that the response addresses the quality risk. The firm considers whether the intended reviewer has the competence, information, authority and time needed to perform the contemplated role, whether the volume and timing make the review practicable, and whether the workflow or interface provides the information needed for effective challenge. The firm also considers whether the type of deficiency the response is intended to address is reasonably capable of being identified through the contemplated review.¹⁹

Illustrative Application: When Human Review Does Not Address the Risk

Assume the firm's AI-enabled financial statement disclosure-review application identifies potential missing or inconsistent disclosures and presents those matters to engagement personnel for review.

Requiring engagement personnel to review each matter identified may help address inaccurate or inappropriate findings. It may not, by itself, address the risk that the application fails to identify a relevant missing disclosure, because the omitted matter does not appear in the output presented for review.

If the identified quality risk relates to significant omissions or false negatives, the firm's response may therefore need to provide engagement personnel with another basis for identifying such omissions, establish additional procedures for areas in which the application is known to be less reliable, narrow the approved use, or otherwise modify the workflow rather than relying only on review of the matters identified by the application.

78. The nature and extent of human involvement are therefore responsive to the quality risks and the reasons for their assessment. Human involvement does not necessarily require manual re-performance or review of every output. Conversely, if the contemplated human involvement cannot reasonably address an identified quality risk, the firm may need to redesign the workflow, narrow the use, improve the information available to the reviewer, require additional corroboration or other procedures, restrict the functionality or decide not to make it available for the contemplated use.

5.3 Handoff to Engagement Use

79. This guide addresses the firm-level policies or procedures and resources that are in place before deployment. At the engagement level, the engagement team implements the firm's applicable policies or procedures and considers whether additional responses are needed in the circumstances of the particular engagement. **Guide 3** addresses that engagement-level application, including direction,

¹⁹ See **IFIAR 2026 report**, pp. 4–7; and **FRC GenAI guidance**, pp. 33–35.

supervision and review, professional judgment and professional skepticism, evaluation of outputs or actions, and communication of relevant experience back to the firm.²⁰

6. Information and Communication

80. The Information and Communication component of ISQM 1 establishes quality objectives addressing the identification, capture, processing and maintenance of relevant and reliable information and its timely exchange within the firm, with engagement teams and, where relevant, with the firm's network, service providers and other external parties.²¹ For AI-enabled technological tools, these information flows may be particularly important because models, configurations, service arrangements, known limitations and permitted uses may change, and relevant information may reside with different functions or organizations.
81. The nature, timing and extent of communication are responsive to the responsibilities of the recipient. Information provided to engagement teams needs to be sufficient to enable them to understand and carry out their responsibilities, but need not include all of the technical information used by those who evaluated the tool. Conversely, a concise user communication may not provide the information needed by those responsible for evaluating provider changes, reassessing quality risks or modifying firm responses. ISQM 1 does not require all communication to take the same form or level of formality.²²
82. Effective communication is therefore two-way and continuous. Information from the firm supports engagement teams and others in applying the firm's responses, while information arising from engagement use may indicate that a response is not operating as intended or that circumstances have changed. For audits of financial statements, ISA 220 (Revised) similarly requires engagement teams to communicate to the firm information from the engagement that is required by the firm's policies or procedures to support the design, implementation and operation of the SOQM.²³

Illustrative Information Flows

Information flow	Illustrative information
Into the firm	Service provider or network information about changes, limitations, incidents, evaluation results, assurance information, changes in contractual or data-use terms, and other information relevant to the firm's quality-risk assessment or responses.
Across the firm	Information exchanged among technology, methodology, quality, privacy or security, learning and governance functions about approved uses, limitations, changes, incidents or matters requiring further evaluation or decision.
To engagement teams	Approved uses and approval conditions, known limitations, information restrictions, relevant methodology, expected human involvement, consultation or escalation requirements, support arrangements and significant changes.

²⁰ For audits of financial statements, see ISA 220 (Revised), paragraph 4 and paragraphs A6–A11. See also footnote 18.

²¹ ISQM 1, paragraph 33 and paragraphs A109–A115.

²² ISQM 1, paragraph 33(c) and A112. See also the IAASB's ISQM 1: *First-Time Implementation Guide*, which explains that communication may take different forms depending on the audience, nature and urgency of the information and that, particularly in smaller or less complex firms, communication may be more informal.

²³ For audits of financial statements, see ISA 220 (Revised), paragraph 4(c). See also paragraph 39(c), which addresses information identified during an audit that may be relevant to the firm's monitoring and remediation process.

Information flow	Illustrative information
Back from engagement teams	Unexpected outputs or actions, omissions or false positives, limitations encountered in practice, impracticable review, workarounds, incidents, proposed new uses and other information that may indicate that the firm's risk assessment or responses need to be reconsidered.
To the network or service provider	Information needed for the network or service provider to fulfill relevant responsibilities, including significant issues identified by the firm, local circumstances affecting use, requests for clarification or further information, and feedback that may affect the tool or related network or service provider activities.

83. The firm may use different communication methods depending on the nature and urgency of the information and the intended recipient. For example, a significant change to an approved AI-enabled technological tool may require a targeted alert, while methodology, training or an internal site may be appropriate for more stable information. The quality-management focus is whether relevant and reliable information reaches those who need it with sufficient timeliness and specificity to enable them to fulfill their responsibilities.

7. Relevant Ethical Requirements

84. The Relevant Ethical Requirements component of ISQM 1 establishes quality objectives addressing the firm and its personnel understanding and fulfilling their responsibilities in accordance with relevant ethical requirements and, where applicable, others who are subject to those requirements doing so.²⁴ When AI-enabled technological tools are used, pre-deployment decisions may affect how the firm supports the fulfillment of those responsibilities. Depending on the circumstances, professional competence and due care, objectivity and confidentiality, as well as the appropriateness of using the output of technology, may be particularly relevant.
85. By way of example, the IESBA Code includes specific technology-related provisions. Paragraph R320.11 requires a professional accountant in public practice who intends to use the output of technology in a professional activity to determine whether the use is appropriate for the intended purpose. Related application material identifies matters that may be relevant to that determination, including the nature of the activity to be performed by the technology, the expected use of or reliance on the output, access to appropriate expertise, whether the technology has been appropriately tested and evaluated and is subject to appropriate oversight, and the appropriateness of the inputs.
86. Firm-level policies or procedures described elsewhere in this guide may also support the fulfillment of relevant ethical responsibilities. Depending on the quality risks, these may include boundaries on the information that may be processed, competence and consultation requirements, access to relevant expertise, safeguards against bias or inappropriate reliance, and methodology or approval conditions addressing the evaluation and use of outputs. Such policies or procedures support, but do not replace, the ethical responsibilities of the firm and its personnel when the tool is used.

²⁴ ISQM 1, paragraph 29 and paragraphs A62–A66. See also, by way of example, the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards), 2025 edition, paragraphs R112.1, R113.1, R114.1, R320.11, 320.11 A1 and 320.12 A1.

8. Preparing for Monitoring and Remediation

87. ISQM 1 requires the firm to establish a monitoring and remediation process that provides relevant, reliable and timely information about the design, implementation and operation of the SOQM and supports timely remediation of identified deficiencies. In determining the nature, timing and extent of monitoring activities, the firm takes into account, among other matters, the reasons for its quality-risk assessments, the design of its responses, changes in the SOQM, previous monitoring results and other relevant information. This guide does not address the operation of monitoring and remediation after deployment. Before deployment, however, the firm considers what information and arrangements will be needed so that responses relating to the AI-enabled technological tool can subsequently be monitored.²⁵
88. Depending on the quality risks and related responses, pre-deployment arrangements may address what information about performance, use, incidents and changes is expected to be available; how that information will be obtained; and who will receive and evaluate it. The firm may also consider whether relevant information will be available from a service provider or network with sufficient timeliness and specificity. Where a response depends on an approval condition, technical restriction, methodology or expected human involvement, the firm may consider what information would indicate that the response is not operating as intended.
89. The firm may also identify circumstances that would warrant further consideration after deployment. These may include changes to models or versions, prompts or system instructions, information sources, connections, permissions, data-use terms, intended use or scale, as well as significant performance issues, incidents or evidence that expected human involvement is not operating as intended. Identifying such circumstances does not mean that every change requires the same response; the nature and extent of further action depend on how the matter affects the quality risks and related responses. Where the network performs monitoring activities relating to the firm's SOQM, ISQM 1 also addresses the firm's responsibilities for those activities and the related results. **Guide 4** addresses the operation of monitoring and remediation after deployment, including reassessment, revalidation, restriction, suspension and decommissioning.

²⁵ ISQM 1, paragraphs 35–37, 50–51, A138–A150 and A181–A184.