

Into the depth

In short The AFM concludes that the engagement quality control review (EQCR) needs to be improved in order to safeguard the quality of statutory audits. In particular, the depth of the EQCR must be improved. This report contains the main findings, opportunities for strengthening and several examples of good practices. We have also discussed the results of our assessment in detail with parties in the sector.

Audit firms

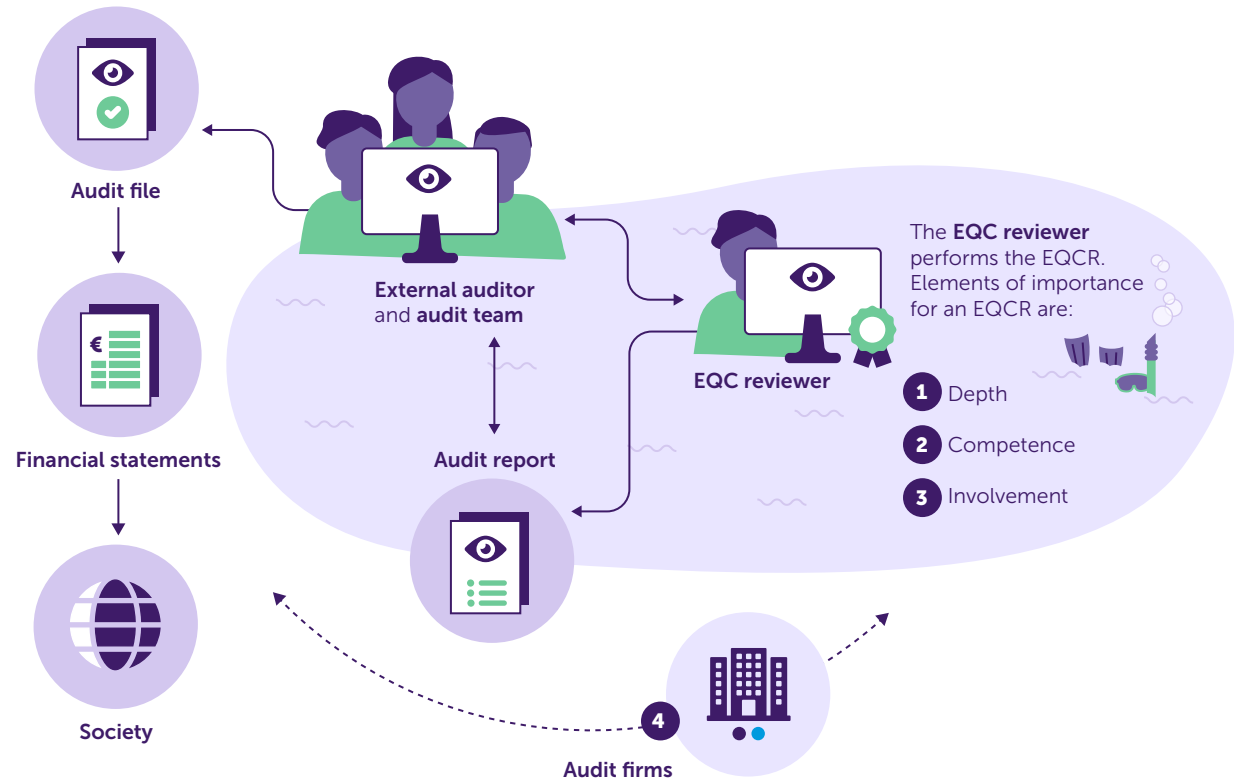
- Non-PIE audit firms
- PIE audit firms

- 1 Depth of review by EQC reviewer must be improved** in PIE and non-PIE audit firms.

26 of 30	9 of 22
- 2 Competence of EQC reviewer not determined** in non-PIE audit firms.

5 of 30	0 of 22
- 3 Timely involvement of the EQC reviewer is important.**
- 4 No proper quality-control system in place for EQCRs in non-PIE audit firms.**

13 of 15	1 of 6



1. Introduction

In 2023, the AFM assessed the engagement quality control review (EQCR) at 21 audit firms. In an EQCR, an independent auditor performs an objective review of the work performed by the external auditor. The EQCR must be performed before the auditor report is issued. The EQCR is thus an important safeguard for the quality of statutory audits. Safeguarding high-quality statutory audits is important for investors, analysts and other users of the financial statements. They must be able to trust that the information in the financial statements presents a true and fair view.

1.1 Stimulating quality improvements

Our supervision of audit firms includes assessing the quality-control system within audit firms, the quality-oriented culture and the quality of statutory audits. We supervise both PIE and non-PIE audit firms.

PIE audit firms

In our supervision of PIE audit firms, we encourage them to maintain control of the quality of their statutory audits themselves. In our report on the most recent assessment of statutory audit quality in 2021, we were mostly positive about the insight provided by the internal quality review into the quality achieved by PIE audit firms.¹

Non-PIE audit firms

We have been supervising non-PIE audit firms since 1 January 2022. In the current phase of our supervision of these audit firms, we wish to gain insight into the quality risks and make them aware of their current quality level. We also encourage them to implement necessary quality improvements in the performance of statutory audits, so as to take control of the quality of the statutory audits they perform.

1.2 The EQCR is an important quality safeguard

The EQCR is enshrined in laws and regulations² and is mandatory for statutory audits of public-interest entities (PIEs) The objective of the EQCR is to ascertain that the external auditor reached their opinion on a reasonable basis.

In practice this means that the EQCR is performed by an independent auditor from within or outside the audit firm who has sufficient competence and sufficient relevant professional experience.

Since the EQCR is performed before the audit report is issued, it is an important preventive quality safeguard. If the EQCR is not performed thoroughly, there is a risk of an incorrect opinion being issued or the audit report being insufficiently substantiated. This can result in unjustified confidence amongst users of the financial statements.

¹ <https://www.afm.nl/en/sector/actueel/2021/december/accountants-iko-grip-op-kwaliteit>.

² Article 18 of the Audit Firms (Supervision) Decree and Article 8 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

In addition, an evaluation of a full set of EQCRs performed by an audit firm allows interventions in order to improve its quality-control system.

In addition to the mandatory EQCR for statutory audits of PIEs, the EQCR safeguard is also often used for non-PIE statutory audits. This is contingent upon the criteria that audit firms are required to formulate in their quality-control system.³ The report 'Act on this!', in which we assessed client and engagement acceptance and continuation in non-PIE audit firms, shows that the EQCR is often used as a quality safeguard as a response to identified risks.⁴ Table 1 shows the latest figures on the use of the EQCR as a quality safeguard.

Table 1: The table below shows how often the EQCR is used as a quality safeguard in all the statutory audits performed in a financial year.

Type of licence holder	Number of statutory audits	Statutory audits with EQCR	EQCR share
PIE audit firms ⁵	7,585	995	13%
Non-PIE audit firms ⁶	12,000	1,982	17%

1.3 Assessment of the use and implementation of the EQCR

We performed this assessment at all six PIE audit firms and at 15 non-PIE audit firms. A total of 52 EQCRs were assessed, including 22 at PIE audit firms and 30 at non-PIE audit firms.⁷ The selected EQCRs concerned statutory audits for the 2021 and 2022 financial years, for which the audit report was issued between the second quarter of 2022 and the third quarter of 2023.

The assessment of the EQCRs focused on three elements of importance for the EQCR, namely:

- The **depth** of the review performed by the EQC reviewer: Is the substantive review sufficient and were its key considerations documented?
- The **competence** of the EQC reviewer: Is the EQC reviewer sufficiently competent and does the EQC reviewer have sufficient relevant professional experience?
- The **involvement** of the EQC reviewer: Was the EQC reviewer assigned to the engagement in a timely manner and was the review performed on time?

We performed both an evaluative and an exploratory study.

Evaluative assessment

An assessment was made of whether the quality-control system for the audit firm's EQCR complies with laws and regulations.⁸ The audit firm's quality-control system includes the requirements of the EQCR and specifies how the EQCR is to be performed.

³ Article 18 of the Audit Firms (Supervision) Decree.

⁴ <https://www.afm.nl/en/sector/actueel/2022/december/accountant-onderzoek-ceac>.

⁵ The information is taken from the AFM Monitor based on the information supplied by the six PIE audit firms in respect of the 2021 financial year.

⁶ The information is taken from the WECO questionnaires for 2023. This information does not include all non-PIE audit firms, so it has been extrapolated to the entire population, taking into account the known proportion of use of the EQCR for quality assurance.

⁷ In the case of four PIE audit firms we assessed four EQCRs for each firm and in the case of two PIE audit firms we assessed three EQCRs for each firm. In the case of all 15 non-PIE audit firms, two EQCRs were assessed.

⁸ Article 18 of the Audit Firms (Supervision) Decree and Article 8 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

We also assessed whether the actual performance of the EQCR in the selected statutory audits complies with laws and regulations.⁹ In each case we assessed one focus area in the statutory audit that was also reviewed by the EQC reviewer.¹⁰ We were thus able to assess whether the EQCR safeguarded the quality of statutory audits.

In this report we use the term ‘findings’ to describe the results of our evaluative assessment.

Exploratory study

In addition to the evaluative assessment, we assessed the design of the EQCR for the selected audit firms. For example, which officer of the audit firm assigns EQC reviewers and how the audit firm assessed whether the assigned EQC reviewer had sufficient time to perform the EQCR.

We also assessed how the EQCR was performed in the selected statutory audits. For example, by examining the timely assignment of the EQC reviewer and the time spent by the EQC reviewer relative to the performance of the audit. Amongst other things, we also looked at whether the EQC reviewer asked the external auditor questions as part of their review, how these questions were followed up and whether the EQC reviewer received specific training for performing an EQC reviewer role.

In this report, we use the term ‘opportunities for strengthening’ to describe the results of our exploratory study.

Good examples

Our assessment also yielded examples of good practices. In this report, these good practices are marked with a ‘green tickmark’.



1.4 In-depth consideration of assessment results with the sector

The assessed audit firms received an individual inspection report. We discussed the results of the assessment with each audit firm individually. We also focused on their ability to improve their EQCR.

We also discussed the results during round tables with several audit firms. These in-depth meetings were viewed positively and gave audit firms an opportunity to share good practices about EQCR.

Finally, for audit firms that were not included in the assessment, we organised a webinar in which we shared the key results and good practices.

The sessions with the sector were constructive. A summary of the presentations to the audit firms can be found on our website.¹¹

1.5 What does the AFM expect?

We expect audit firms to perform an in-depth EQCR. By that we mean in particular that the depth of the EQCR must be improved to ensure that it provides a better quality safeguard. The results of this assessment will enable audit firms to strengthen their EQCR and thus further improve the quality of statutory audits. In this report we provide findings, opportunities for strengthening and examples of good practices, which we expect the sector to apply. In the coming years we will continue actively monitoring the quality improvement for the EQCR and adapt our future supervisory activities where necessary.

⁹ Article 18 of the Audit Firms (Supervision) Decree and Article 8 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

¹⁰ Assessed against ISA 500.6.

¹¹ <https://www.afm.nl/~/profmedia/files/publicaties/2024/slides-okb-engels>

2. Results of our assessment

In this section we set out the main findings, opportunities for strengthening and examples of good practices.

We conclude that the EQCR needs to be improved in order to safeguard the quality of statutory audits. For both PIE and non-PIE audit firms, the EQCR does not provide a sufficient quality safeguard and in particular needs to be performed in greater depth.

In the case of non-PIE audit firms, the quality-control system for the EQCR also needs to be improved. We also request these audit firms to pay attention to the competence and involvement of the EQC reviewer.

Most PIE audit firms have a proper quality-control system in place. This also applies in respect of the elements competence and involvement. We did not note any findings in this regard.

2.1 Depth of review by EQC reviewer must be improved

The depth of the EQC reviewer's review is essential for it to function as a quality safeguard.

By depth of the EQC reviewer's review we mean an appropriate substantive review of at least the legally required subjects.¹² For example, the EQC reviewer must review the independence, whether the external auditor has identified all significant risks, the audit differences and whether sufficient audit evidence was obtained to substantiate the external auditor's final opinion. During the review, the EQC reviewer may indicate that audit evidence is lacking and additional audit procedures are required. The EQC reviewer may also include additional elements from the audit file in their review at their discretion.

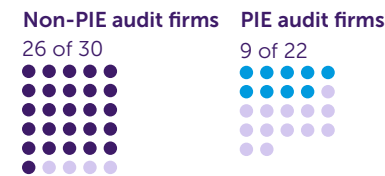
¹² Article 18 of the Audit Firms (Supervision) Decree and Article 8 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Findings of the evaluative assessment

The assessment shows that the EQCR needs to be performed in greater depth to safeguard the quality of statutory audits. The findings concerning the depth of the EQC reviewer's review are shown in Figure 1.

Figure 1 Results of evaluative assessment of the depth element of the review performed by the EQC reviewer.

Findings concerning depth



In the case of non-PIE audit firms, we noted findings concerning the depth of the EQC reviewer's review in 26 of the 30 assessed EQCRs.

The main finding is that in 25 of these 26 cases the EQC reviewer did not ensure that the audit evidence obtained was sufficient to substantiate the external auditor's opinion. In these cases we ascertained that insufficient audit evidence was obtained for a focus area that had also been reviewed by the EQC reviewer. The EQC reviewer should have prevented these findings.

In the 26 EQCRs we also noted other findings, with multiple findings possibly applying to one EQCR. For example, the EQC reviewer did not review the mandatory subjects of independence (four cases), identified corrected and uncorrected misstatements (four cases), the subjects discussed with the audit committee and the management and/or supervisory bodies (five cases) and the audit report (three cases).

In five cases the EQC reviewer did not discuss the results of their review with the external auditor.

In three cases we also noted that the EQCR had not been completed when the audit report was issued. It is a requirement that the EQCR is completed before the audit report is issued.

In the case of PIE audit firms, we have findings concerning the depth of the EQC reviewer's review for nine of the 22 assessed EQCRs. In six of these nine cases, the EQC reviewer did not ensure that the audit evidence obtained was sufficient to substantiate the external auditor's opinion. In these cases we ascertained that insufficient audit evidence was obtained for a focus area that had also been reviewed by the EQC reviewer. The EQC reviewer should have prevented these findings.

In the nine EQCRs we also noted other findings, with multiple findings possibly applying to one EQCR. In two cases we ascertained that although sufficient audit evidence had been obtained for a focus area that had also been reviewed by the EQC reviewer, the reviewer had not adequately reviewed with an in-depth review whether the external auditor had obtained the necessary audit evidence. The reviewer also insufficiently reviewed the risks identified in the audit (three cases), made an insufficient record of the main considerations in their review (three cases) and did not discuss the results of their review with the external auditor (three cases). These are mandatory subjects for the EQCR.

Opportunities for strengthening from exploratory study

In our assessment we identified a number of ways in which audit firms could increase the depth of the EQC reviewer's assessment:

- Ask EQC reviewers to define and record the EQCR strategy. Why is a part of the audit important or unimportant for inclusion in the review?
- Have EQC reviewers ascertain whether the external auditor's involvement was sufficient and appropriate during the audit.
- Ensure that a record is made of the questions asked by the EQC reviewer, as well as the follow-up by the external auditor and the processing by the EQC reviewer. This will provide insight into the review performed.

- Carry out regular internal quality reviews to gain insight into the quality of the EQCRs performed.

Examples of good practice

Below we share some examples of good practices from in-depth reviews by EQC reviewers observed during our assessment.

Good practice – Recording of EQCR



An audit firm uses a work programme, which includes:

- The EQCR strategy. Here the EQC reviewer must include the audit client's principal characteristics of importance for the EQCR. The EQC reviewer must also make a record of the results of the review, together with the considerations underlying those results.
- The questions that the EQC reviewer asked the audit team and the main discussions that the EQC reviewer had and with whom.

This shows clearly why an EQC reviewer adopted a particular approach, which documents they reviewed, what the main discussions were, what questions were asked during the EQCR and what answers were given.

Good practice – Documentation of considerations



The EQC reviewer performed an in-depth review of the selected focus area at several times during the audit. A detailed record was made of this, showing which questions were asked and how these were followed up.

The EQC reviewer asked critical and detailed questions about the risk assessment procedures, the audit approach, the audit procedures for the design and operating effectiveness of relevant internal controls, substantive audit procedures and the draft financial statements. The external auditor followed up these questions during the audit and made a brief record of this in the EQCR work programme. At several times the EQC reviewer then assessed whether the comments had been followed up appropriately.

2.2 The competence and timely involvement of the EQC reviewer is important

The competence and timely involvement of the EQC reviewer is important for a proper review. We call on non-PIE audit firms to devote attention to this.

Competence in the case of an EQC reviewer means capability and sufficient relevant professional experience to perform an objective, professionally critical review. An involved reviewer performs their review in a timely manner. That means that, shortly after completion of the external auditor's procedures and preferably at various times during the audit. Timely adjustments can then be made if required. An involved EQC reviewer also spends as much time as necessary on an appropriate review.

Findings of the evaluative assessment

The assessment shows that attention needs to be paid to the competence and involvement of the EQC reviewer. The findings concerning the competence of the EQC reviewer are shown in Figure 2.

Figure 2: Results of evaluative assessment of the competence of the EQC reviewer.



In the case of non-PIE audit firms, we noted no findings concerning the competence of the EQC reviewer for 25 of the 30 assessed EQCRs. In the other five cases we noted that when assigning the EQC reviewer to the statutory audit an audit firm did not establish that the EQC reviewer was sufficiently competent and had sufficient relevant professional experience to perform the review.

In the case of PIE audit firms, we noted no findings concerning the competence of the EQC reviewer in the assessed EQCRs.

We did not perform an evaluative assessment of the involvement of the EQC reviewer.

Possible opportunities for strengthening from exploratory study

In our assessment we noted a number of opportunities for audit firms to strengthen the competence and involvement of the EQC reviewer.

- Assign the EQC reviewer to the engagement in a timely manner, in any case before the planning phase of the audit.
- Instruct the EQC reviewer to perform the review of the audit in a phased manner, shortly after the external auditor has completed it. This enables the EQC reviewer to request timely adjustments if necessary.
- Ensure that the assigned EQC reviewer has as much time as necessary to perform the review in sufficient depth.
- Pay attention to any undesirable hierarchical relationship between the EQC reviewer and the external auditor and whether the EQC reviewer depends on the external auditor for their appraisal.
- Provide periodic training for EQC reviewers, specifically focusing on the performance of an EQCR and any specific points of concern for audit quality.

Examples of good practice

Below we share an example of good practice with regard to the competence and involvement of the EQC reviewer that we observed during the assessment.

Good practice – EQCR team

The EQCR was performed by an EQCR team: an EQC reviewer with ultimate responsibility and an EQCR team member. The combination of wide experience with a fresh perspective and the possibility of sparring between EQC reviewers contributed to the performance of the EQCR. The EQC reviewer with ultimate responsibility has extensive relevant professional experience as an external auditor and extensive experience as an EQC reviewer. The EQC team member has relevant professional experience in the audit client’s sector and was newly assigned as EQC reviewer to the respective audit.



We have findings concerning the quality-control system for the EQCR in 13 of the 15 assessed non-PIE audit firms. In the case of PIE audit firms, we noted a finding concerning the quality-control system for the EQCR in one of the six assessed audit firms. Our main finding is that the audit firms did not assess whether the EQC reviewer was sufficiently competent and had sufficient relevant professional experience. The quality-control system also included no assessment of whether the EQC reviewer was independent of the audit client.

2.3 No proper quality-control system in place for EQCRs in non-PIE audit firms

An audit firm’s quality-control system comprises working methods, procedures and measures. These are important parameters for the provision of a quality safeguard, including the EQCR.

Findings of the evaluative assessment

The assessment shows that in the case of non-PIE audit firms, the quality control system needs to be improved. The findings concerning the quality control system for the EQCR are shown in Figure 3.

Figure 3: Results of evaluative assessment of the quality-control system for the EQC reviewer.

Findings concerning the quality-control system



Possible opportunities for strengthening from exploratory study

In performing our assessment we noted a number of opportunities for audit firms to strengthen the quality-control system for the EQCR.

- Assess whether the assigned EQC reviewer has sufficient time to perform the EQCR properly.
- Have the EQC reviewer assigned by an independent officer (and not by the external auditor or the EQC reviewer).
- Monitor the timely involvement and quality of the EQCR in the interim.

Examples of good practice

We share below some examples of good practices in the quality-control system that we observed during the assessment.

Good practice – Monitoring the performance of EQCRs

For the first EQCR of each year, all EQC reviewers are requested to share the record of their review of the planning phase (including the risk assessment procedures and the planned audit procedures) with the person in the audit firm responsible for performing the EQCR. This person coaches the EQC reviewers on the scope and depth of the review and the documentation of the review.



Good practice – Internal review of EQCR quality safeguard

An audit firm performs annual in-depth reviews of various statutory audits to understand how the EQCR quality safeguard worked. This includes assessments of four components: the timing of the EQCR, hours spent, the depth of the EQCR and the extent of documentation. These components are detailed further with evaluation points and criteria. This gives the organisation input to further strengthen the EQCR process.

The common threads resulting from the assessments are translated into points of concern and points of strength. These are shared with a delegation of the board of directors and also discussed in technical meetings of the various departments.

