

IQR: an accurate instrument provides a fair picture

In short – The AFM examined how the internal quality review (IQR) is designed and implemented at six PIE audit firms. The IQR provides insight into the quality of completed statutory audits and is an important monitoring instrument under ISQM 1. We observe that unpredictability and representativeness are still inadequate. Fixed selection routines, early communication, a focus on large or high-risk audit files and the limited scope of IQRs restrict insight into day-to-day audit practice. At the same time, PIE audit firms demonstrate that an adequate IQR can be achieved, for example by incorporating random selection and an element of unpredictability into the IQR selection process. The AFM expects the sector to strengthen the IQR as a monitoring instrument and to use it as a tool for continuous learning and improvement.



Summary

The Internal Quality Review (IQR) is a key instrument for audit firms to enhance quality improvements and ensure compliance with the new International Standard on Quality Management 1 (ISQM 1). The IQR is a mandatory component of the system of quality management under ISQM 1. It plays an important role within the standard, particularly in relation to monitoring and remediation. The IQR is a valuable tool because it provides insight into the quality of completed statutory audits and supports the timely identification of deficiencies. It also contributes to the continuous improvement of audit quality within the audit firm.

By providing a realistic picture of the quality of completed statutory audits and by identifying deficiencies in a timely manner, the IQR supports audit firms in achieving the level of quality expected by society. However, the AFM's analysis of transparency reports and data submitted by PIE audit firms indicates that the IQR covers only a limited proportion of statutory audits performed. Furthermore, our previous review in 2021 found that, in three of the eighteen statutory audits examined (17%), the audit firms reached a different IQR conclusion than the AFM. International supervisors have also expressed concerns regarding internal quality reviews, as external inspections identified findings in 35% of listed PIE audits, compared with 11% reported through audit firms' IQR processes.

For this reason, we conducted a further review of the effectiveness and robustness of the IQR as a tool for obtaining insight into the quality of completed statutory audits and for identifying audit quality deficiencies in a timely and comprehensive manner. At six audit firms, we examined the quality objectives associated with the IQR, the choices made in selecting engagement partners, statutory audits and focus areas, and the effect these choices have on unpredictability and representativeness. The element of unpredictability within the IQR is essential to ensure an objective and representative assessment of engagement partners and completed statutory audits. Representativeness is equally important because it prevents the outcomes of the IQR from providing insight into only a limited segment of the engagement portfolio. It is also important that the IQR population contains a sufficient proportion of statutory audits. This review did not assess the execution of the IQR procedures themselves or the process used to determine IQR ratings and conclusions. The findings of our review are presented in this report. To help the profession make further progress, we also highlight a number of good practices identified during our review.

Across all audit firms examined, we found that the primary objective of the IQR is to determine whether completed statutory audits have been performed in accordance with applicable laws and regulations, professional standards and internal policies. In addition, audit firms use the IQR widely to identify deficiencies and risks in the execution of audits. Another objective common to all audit firms is the use of the IQR in evaluating the overall effectiveness of the system of quality management. Most audit firms also view the IQR as a tool for learning and professional development.

Our review of the element of unpredictability showed that several audit firms apply a cyclical selection process for engagement partners, such as a three- or four-year cycle in which every engagement partner is reviewed at least once. We also observed that this predictability enables engagement partners to anticipate review selection. With regard to audit engagement selection, several audit firms apply a largely risk-based approach, based on fixed criteria that recur on an annual basis. This increases the likelihood that engagement partners will be able to predict which audits may be selected for review. In addition, we found that communication regarding the engagement partners and audits selected for review often takes place too early.

In practice, the IQR population frequently consists of high-risk audits, large engagements or high-profile clients, while smaller or less complex engagements are often underrepresented. Across the six audit firms reviewed, the IQR selection covered on average 1.5% of the total statutory audit portfolio. Our review found that IQR selections are only representative to a limited extent. This is despite the fact that several audit firms explicitly state in their policies that a balanced selection should be the starting point.

AFM insights: improving IQR selection to enhance insight into audit quality. Based on our findings, the AFM concludes that further improvement of the IQR is necessary. The IQR should be used more strategically and effectively for its intended purpose: obtaining in-depth insights into the quality of completed statutory audits as a monitoring activity that provides assurance that the system of quality management is operating effectively. To achieve this, it is essential that IQR selections are both unpredictable and representative of the audits performed. This helps ensure that deficiencies do not remain predictably or systematically undetected.

The AFM encourages the profession to use the IQR consciously as a learning instrument. By focusing on balanced, less predictable and more representative selections, and by thoroughly analysing the outcomes and incorporating them into monitoring and improvement activities, audit firms can derive greater value from the IQR. This will help audit firms identify deficiencies in a timely manner and take targeted action to improve quality.

At the same time, the AFM observed examples of effective IQR practices at several audit firms. At these audit firms, the IQR demonstrably leads to relevant insights and concrete improvement measures. These good practices show that, when carefully designed and effectively utilised, the IQR can be a powerful instrument for strengthening quality management.

The AFM will follow up on the outcomes and actions taken by each audit firm. We will discuss audit firms' responses to the findings of this review and will incorporate implemented improvements into our ongoing supervision activities. A robust IQR is an important prerequisite for the AFM to place greater reliance in the future on the effective operation of audit firms' internal systems of quality management.

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1. Introduction

Implementing ISQM 1 requires a systematic and risk-based approach to quality management. The auditor performs an important public interest role. Auditors serve the public interest and contribute to maintaining confidence in the reliability of financial information. This places a significant responsibility on audit firms: the quality of their work must be safeguarded on a continuous basis, risks must be identified in a timely manner and deficiencies must be addressed appropriately. Given this responsibility, audit firms are expected to design and implement their system of quality management in an appropriate and effective manner.

The introduction of the new International Standard on Quality Management 1 (ISQM 1) gives further substance to this responsibility. ISQM 1 requires audit firms to adopt a more risk-based and systematic approach to quality management. It requires them to establish, implement and maintain a system of quality management that is tailored to the nature, size and complexity of the firm and the engagements it performs. In the Netherlands, the standard applies to PIE audit firms as from 2025 and to other audit firms as from 2026.

A key requirement of ISQM 1 is that the system of quality management must be evaluated at least annually. As part of this evaluation, audit firms are required to assess whether the system provides reasonable assurance that the audit firm's quality objectives are being achieved. Within this framework, monitoring and remediation form a fundamental and ongoing component. Monitoring and remediation should provide insight into the effectiveness of the system of quality management, enable the timely identification of deficiencies and ensure that appropriate remedial actions are taken.

The Internal Quality Review (IQR) is an important instrument for promoting quality improvement and supporting compliance with ISQM 1. The IQR plays a significant role within ISQM 1, particularly within the monitoring and remediation component. It provides insight into the quality of completed statutory audits, supports the timely identification of deficiencies and contributes to the continuous improvement of quality throughout the audit firm.

The IQR is a mandatory element of the system of quality management under ISQM 1. An effective IQR is therefore not only necessary for compliance with the standard but also an essential precondition for continuous quality improvement and the strengthening of an audit firm's quality culture. By providing a realistic picture of the quality of completed statutory audits and identifying deficiencies in a timely manner, the IQR supports audit firms in achieving the level of quality expected by society.

The AFM's analysis of transparency reports and data submitted by PIE audit firms shows, however, that the IQR covers only a limited proportion of completed statutory audits. On average, IQRs are performed on approximately 1.5% of the total statutory audit portfolio. This raises questions about the extent to which IQR outcomes are representative of the overall quality of statutory audits.

In addition, Dutch PIE audit firms report more positive IQR outcomes than those reflected in international inspection results, such as those published in the IFIAR Inspection Findings Survey, and previously in the AFM's IQR review conducted in 2021. The review in 2021 examined the execution and outcomes of internal quality reviews. A total of eighteen statutory audits were included in the review. For three of these audits (17%), the rating resulting from the firm's IQR differed from the conclusion reached by the AFM following its own quality inspection. Data submitted by Dutch PIE audit firms for the period 2020-2025 show that, on average, 11% of IQRs of PIE audits resulted in significant findings. However, the IFIAR Inspection Findings Survey 2025 reports that external supervisors identified significant findings in 35% of inspections of listed PIE audit engagements.

The above observations raise doubts about the effectiveness and robustness of the IQR as a tool for obtaining insight into the quality of completed statutory audits and for identifying audit quality deficiencies in a timely and comprehensive manner. For this reason, the AFM assessed how PIE audit firms use the IQR, including the quality objectives linked to the IQR, the selection criteria used to select engagement partners, statutory audits and focus areas, and the extent to which these choices contribute to unpredictability and representativeness. This report outlines how PIE audit firms have designed and implemented their IQR process and assesses the extent to which it supports the monitoring objective under ISQM 1.

2. The IQR – part of monitoring activities

2.1 The IQR provides insight into the quality of statutory audits

The IQR forms a key foundation of the monitoring and remediation processes required under ISQM 1.

The purpose of the IQR is to obtain insight into the quality of completed statutory audits, enabling deficiencies to be identified in a timely manner and supporting the effective operation of the system of quality management. Audit firms do not use the IQR as a stand-alone instrument for obtaining insight into audit quality. Rather, the IQR is intended to operate in conjunction with other monitoring activities and quality management tools to provide reasonable assurance regarding the effectiveness of the system of quality management.

2.2 Objectives of the IQR

The objectives of the IQR largely determine its effectiveness. For the purposes of this review, the AFM considers it important to explicitly address these objectives of the IQR. They form the basis for both the design and execution of the IQR and largely determine the extent to which the IQR contributes to obtaining a reliable and representative view of the quality of completed statutory audits. By assessing the extent to which IQR objectives are achieved in practice, the AFM can gain insight into the effectiveness of the IQR as an instrument within the quality management framework and into the extent to which it supports oversight of statutory audit quality.

Audit firms have defined different objectives for the IQR. At all audit firms examined, the IQR plays a role in monitoring and improving the quality of statutory audits. The primary objective of the IQR is to determine whether completed statutory audits have been performed in accordance with applicable laws and regulations, professional standards and internal policies. This objective is explicitly reflected in all audit firms reviewed and forms the cornerstone of their IQR policies.

In addition, the IQR is widely used as a tool for identifying deficiencies and risks in the execution of statutory audits. All audit firms reviewed describe the IQR as an instrument that not only identifies deficiencies but also provides insight into themes, trends and patterns that require attention within the audit practice. This is in line with the requirements of ISQM 1, which stipulate that monitoring activities should provide a reliable basis for identifying deficiencies within the system of quality management.

Another objective observed across all audit firms is the use of the IQR in evaluating the system of quality management as a whole. This involves determining whether the system has been appropriately designed, effectively implemented and is operating effectively. Some audit firms explicitly include this objective in their policies, while others position the IQR as an integral part of the broader monitoring and remediation cycle.

At the majority of audit firms reviewed, the IQR also serves a learning and development objective.

The IQR is used to provide insight into professional judgement, audit documentation, risk assessments and the application of auditing standards, enabling both audit teams and the audit firm as a whole to learn and improve.

Good practice



Assessing the broader impact of identified deficiencies

In accordance with its IQR policy, one audit firm applies an approach under which non-compliant IQR ratings are evaluated. As part of this approach, specific consideration is given to whether other professionals involved in the engagement, such as other partners, managers or Engagement Quality Reviewers (EQRs), should also be subject to the review. The objective of this approach is to identify and address potential issues of a similar nature in other audit engagements for which these partners, managers or EQRs are responsible and to take appropriate remedial action where necessary.

Some audit firms have established additional objectives for the IQR. The IQR outcomes are used, among other purposes, for:

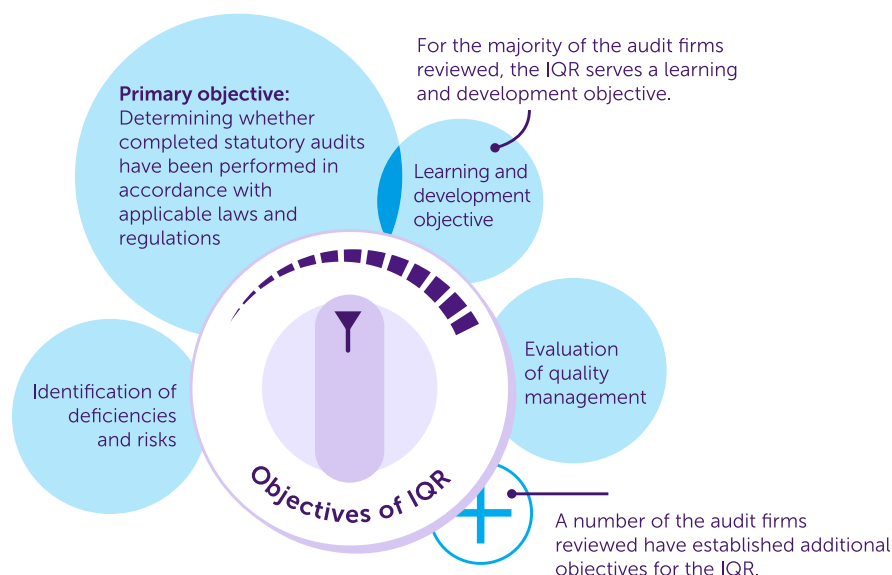
- Performance and development assessments of engagement partners and directors, including remediation measures following an unsatisfactory IQR outcome for an engagement partner.
- Accreditation and appointment decisions, including appointments to PIE audit engagements and promotion decisions.

One audit firm has deliberately chosen not to select engagement partners who received an unsatisfactory IQR outcome for another full IQR in the following year. Instead, remediation is addressed through alternative quality measures, such as thematic reviews that focus on a specific aspect of an audit engagement rather than reviewing the entire audit file.

The AFM notes that current selection approaches often limit the unpredictability of IQR selections in practice. This creates a risk that engagement partners may be able, directly or indirectly, to influence the selection process, thereby reducing the effectiveness of the IQR.

The AFM expects audit firms to design their IQR selection processes in a manner that safeguards unpredictability and prevents direct or indirect influence over selection decisions.

Figure 1: Objectives



2.3 Design and execution of the IQR

The AFM observed that all audit firms examined have established specific policies governing the IQR. These policies address various aspects of the IQR, including its objectives, selection criteria and execution of the IQR. The AFM identified several opportunities for improvement and encourages the profession to leverage these practices to further strengthen their policies and practices:

Document the considerations underlying final selection decisions in a structured manner to enhance transparency regarding the application of selection criteria and the judgements made during the process. This documentation should cover not only the final selection of engagement partners and statutory audits but also the rationale supporting those decisions. This helps demonstrate that the selection process is aligned with established policy and promotes consistent application of the selection methodology.

The AFM observed that, at most of the audit firms reviewed, these underlying considerations were not documented. Documentation such considerations provide evidence that relevant factors – such as maintaining an appropriate spread across the population – have been considered. This enhances transparency, improves the explainability of selection decisions and strengthens the overall rationale supporting the IQR process.

Good practice



Documenting key judgements and considerations in IQR statutory audit selection

One audit firm has established a transparent and structured process for selecting statutory audits and focus areas for the IQR. Key judgements and supporting considerations are clearly documented. The documentation includes important parameters relating to both current and prior years, such as client descriptions, reasons for selection, the use of quality measures, such as an Engagement Quality Review (EQR), input from IQR leaders and coordinators, the timing and results of external inspections, outcomes of previous internal quality reviews and other relevant engagement-specific characteristics. This approach supports compliance with the audit firm's selection policies and demonstrates that appropriate diversity and spread within the selected population have been achieved.

Safeguard the independence of IQR selections through formal policies

Audit firms should establish clear policies addressing situations where IQR reviewers also serve as engagement partners. Such policies help prevent actual or perceived conflicts of interest and contribute to transparency and consistency in execution. They also strengthen safeguards around independence and provide greater clarity regarding roles and responsibilities. The AFM observed that four of the six audit firms reviewed did not have formal policies in this area, despite having implemented practical safeguards to protect the independence of the IQR selection process. One example is the involvement of the international network in IQR selection and execution.

Support the IQR process with appropriate and controlled tools

Audit firms should reduce the risk of errors in IQR overviews by using appropriate technological solutions. The AFM observed that several audit firms maintain IQR overviews, such as engagement partner lists, in Excel spreadsheets. This approach is susceptible to error and does not provide sufficient safeguards to ensure the completeness and accuracy of data. The use of more advanced tools can facilitate automated controls and authorisation procedures, thereby enhancing the reliability of the IQR process.

Good practice



Using Power BI for the selection of statutory audits

One audit firm uses a Power BI dashboard to support the selection of statutory audits for IQR purposes. The dashboard provides an overview of all engagements under the responsibility of an engagement partner, together with relevant characteristics used in the IQR selection process. Information is automatically sourced from multiple systems, reducing manual processing steps and supporting improved data quality.

Establish clear and centralised IQR policies

IQR policies should be documented in a clear, coherent and centrally accessible manner. This reduces the risk of ambiguity, inconsistent application and unintended non-compliance with policy requirements. At two of the six audit firms reviewed, the AFM observed that elements of the IQR policy framework were either fragmented across multiple documents or not documented consistently.

3. Unpredictability in the IQR

3.1 Importance of unpredictability within the IQR

Unpredictability within the IQR is a key principle for achieving an objective and representative assessment of engagement partners and statutory audits performed. If the selection of engagement partners, statutory audits and/or focus areas is predictable, there is a risk that engagement partners will prepare specifically for the reviews. In that case, day-to-day practice is not assessed, but rather an optimised situation, which may lead to a distorted view of the quality actually achieved. In addition, less attention may be paid to statutory audits and/or focus areas that are unlikely to fall within the IQR, which may compromise the quality of the statutory audit.

By incorporating unpredictability in the selection process, engagement partners are encouraged to pay continuous attention to quality, rather than concentrating on quality only in advance of the IQR. The AFM expects audit firms to create preconditions to safeguard the unpredictable nature of the IQR selection, including by not providing information in advance that makes the selection predictable. This means, for example, that the IQR selection is only announced after both the selected engagement partner and the selected statutory audit have been definitively determined. In addition, the IQR selection should only be communicated after the selected statutory audit file has been archived, so that the engagement partner can no longer influence the audit file or postpone the sign-off date in order to prevent the selected audit file from being selected in the IQR.

3.2 Role of selection criteria within the IQR

At the same time, clear and predefined selection criteria for the IQR are essential for a reliable and objective assessment of the quality of statutory audits. The use of selection criteria makes clear which risks are relevant and how these risks have been addressed in the statutory audit and ensures that the IQR selection is applied consistently over the years.

The selection criteria within the IQR are applied at three levels:

- Selection of engagement partners
- Selection of statutory audits
- Selection of focus areas.

3.2.1 Selection of engagement partners

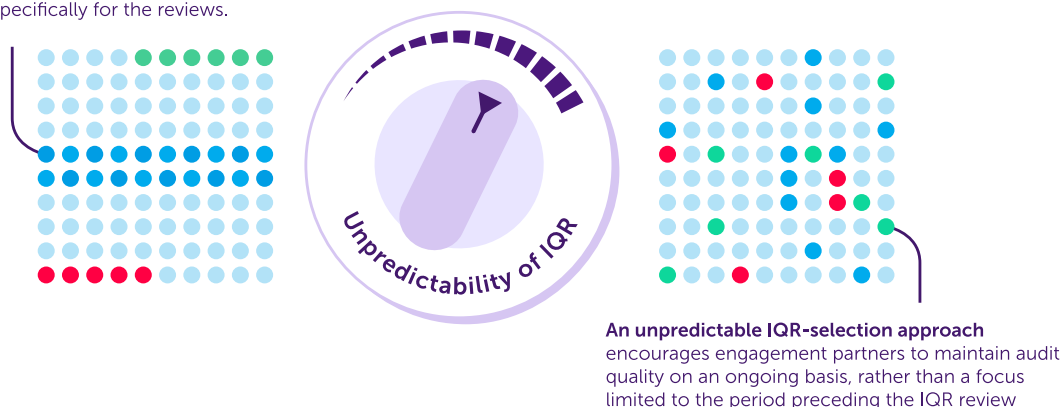
The selection of engagement partners is an important element in the predictable nature of the IQR. Several audit firms apply a cyclical selection process, for example a three- or four-year cycle in which each engagement partner is reviewed at least once. This regular cycle may be applied both at the level of the individual engagement partner and at the level of the entire engagement partner portfolio. Although this is necessary from a quality assurance perspective, it leads to a recognisable pattern that increases predictability. In our review, we observed that a large group of engagement partners are structurally selected in the same year of the cycle, allowing them to anticipate the review.

At several audit firms, the selection of engagement partners is communicated before the IQR selection of the statutory audit has been made, while the statutory audits that could potentially be selected have not yet been completed. Communicating the engagement partner selection before the statutory audit has been completed and archived entails the risk that audit work or completion dates may be influenced. This is particularly the case at audit firms where several months pass between these communication times. In addition, personal preferences or the availability of engagement partners are sometimes taken into account in the planning of the IQR. We have also seen selections of statutory audits

that are based partly on expected completion dates provided by engagement partners. These approaches increase the predictability of the IQR selection and also provide the opportunity to exert indirect influence on the selection. Four of the six audit firms examined have not formulated policies on the timing of communication of the selection. The AFM prefers communication regarding the IQR selection to take place simultaneously for both the selected engagement partner and the selected statutory audit, for example within a single communication instance.

Figure 2. Unpredictability in the IQR

A **predictable selection** process creates a risk that engagement partners will prepare specifically for the reviews.



Good practice

Random selection of engagement partners increases the unpredictability of the IQR cycle. In addition to the regular IQR cycle, the audit firm applies a separate cycle in which engagement partners are selected randomly. In combination with a six-week notice period prior to the review, this approach increases the unpredictability of the IQR selection.

3.2.2 Selection of statutory audits

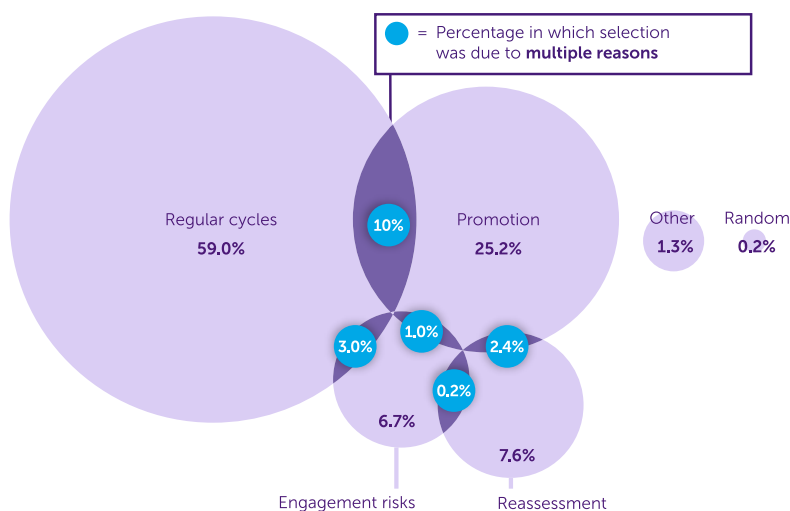
Statutory audits with an increased risk profile have a greater likelihood of being selected. At several audit firms, the selection of statutory audits is largely risk-based and determined by fixed, annually recurring criteria, including when the selection is made within the regular cycle. Although a risk-oriented approach is appropriate, the consistent use of the same criteria leads to recognisable patterns in the selection process. This increases the likelihood that audit teams will be able to predict which statutory audits will be eligible for selection. An additional consequence is that less insight is obtained into the quality achieved in statutory audits with a standard or reduced risk profile. Representativeness based on the risk classification of the selection of statutory audits is discussed further in section 4.4, Representativeness based on risk classification.

At three audit firms, statutory audits are selected to cover multiple selection criteria, which increases the predictability of the selection. The most common combination is selection from the regular cycle in combination with the selection of statutory audits involving an external auditor who is to be appointed or has recently been appointed. As a result, engagement partners who fall within the regular cycle and work with a colleague who is likely to be appointed or has recently been appointed as an external auditor can anticipate that these statutory audits will be selected more often. The use of multiple selection criteria therefore increases the predictability of the IQR selection. At these three audit firms, this concerns on average approximately 17% of the internal quality reviews in the period 2019-2025. At one of these audit firms, this involved approximately one in three statutory audits selected for the IQR during this period.

Figure 3. Main reasons for selecting a statutory audit for an internal quality review

Regular cycles are the main reason for selecting a statutory audit

Selection categories as percent of total



3.2.3 Selection of focus areas

The selection of focus areas contains unpredictable features. At all six audit firms, different phases in the audit are included in the IQR, in accordance with the internal IQR policy. In addition, all six audit firms also focus their IQR on separate focus areas. These focus areas relate to items or components with increased risks, such as revenue.

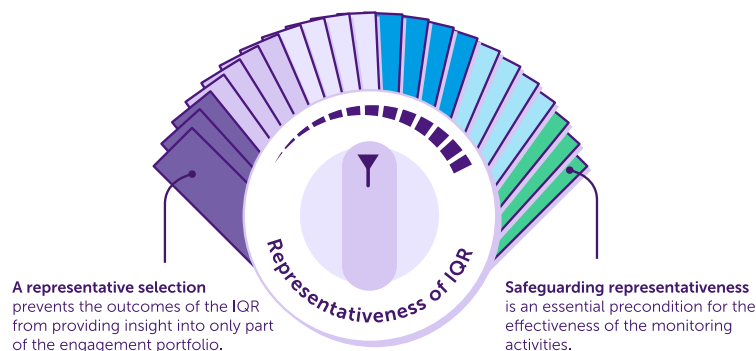
In addition, the AFM observed that four of the six audit firms determine thematic focus areas, possibly on an annual basis. These themes are selected based on factors such as risk analyses and signals from other monitoring activities, including outcomes of external reviews. These thematic focus areas are not widely communicated in advance within the audit firm, making the selection of focus areas less predictable. At all six audit firms, a tailored approach is applied to each selected statutory audit. For each audit, one or more focus areas are determined on the basis of elements such as the financial statements and the annual report. These focus areas are considered appropriate and relevant for an IQR review in terms of scope and risk profile. This approach strengthens the unpredictable nature of the focus areas, making it more difficult for the engagement partners involved to anticipate than if fixed audit areas, such as revenue, were consistently used as focus areas.

4. Representativeness in the IQR

4.1 Importance of representativeness within the IQR

The purpose of the IQR is to provide a reliable and objective view of the effectiveness of the system of quality management and the quality achieved in the performance of statutory audits. A representative selection prevents the outcomes of the IQR from providing insight into only part of the engagement portfolio. This means that the selection of engagements must not be limited to specific types, industries or risk profiles and must include a balanced cross-section of the full population. Together with other monitoring activities, the IQR can then provide insight into the level of quality and the effectiveness of the system of quality management. Ensuring representativeness is therefore a key precondition for the effectiveness of monitoring activities.

Figure 4. Representativeness in the IQR



4.2 Scope of the IQR selection

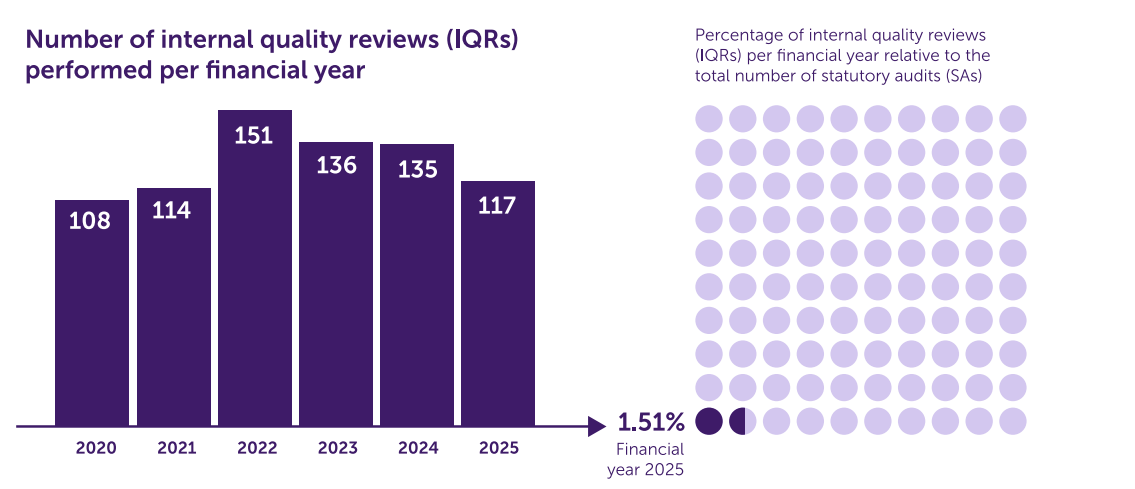
As a monitoring activity, the IQR provides insight into the quality of completed statutory audits to enable a reliable assessment of whether the internal quality system is operating effectively. As described in section 3.2.1, Selection of engagement partners, each engagement partner is selected once every three or four years in the regular cycle. This means that all engagement partners are included in this cycle, subject to a few exceptions. As a result, representativeness at the level of the engagement partner is fully achieved.

Within the regular cycle, the selection of engagement partners is the main determining factor for the number of internal quality reviews performed each year. As described earlier in section 3.2.2, Selection of statutory audits, other selection criteria are also applied for the IQR selection in addition to the regular cycle at engagement partner level. Examples include a reassessment or appointment/reappointment as external auditor in order to be allowed to sign certain types of engagements, such as statutory audits of PIE clients. The share of these other selection criteria is considerably smaller than that of the regular cycle.

The IQR selection is not limited to the statutory audits of the selected engagement partners; other engagements, such as voluntary audits, may also be included in the IQR selection. At the six audit firms reviewed, the IQR selection results in an average review scope of approximately 1.5% of the total portfolio of statutory audits. Given its limited scope, it is essential that the IQR, in conjunction with other monitoring activities, provides a representative reflection of the total portfolio of statutory audits. Only then can effective insight be obtained into the operation of the system of quality management. The AFM considers it important that the IQR selection includes a sufficient proportion of statutory audits, as the

system of quality management primarily focuses on the quality of these audits. An excessive focus on, for example, voluntary audits may result in insufficient insight into the quality of statutory audits.

Figure 5. Total number of internal quality reviews performed on statutory audits per financial year at the six audit firms examined in the period 2020-2025 compared with the total statutory audit portfolio in 2025

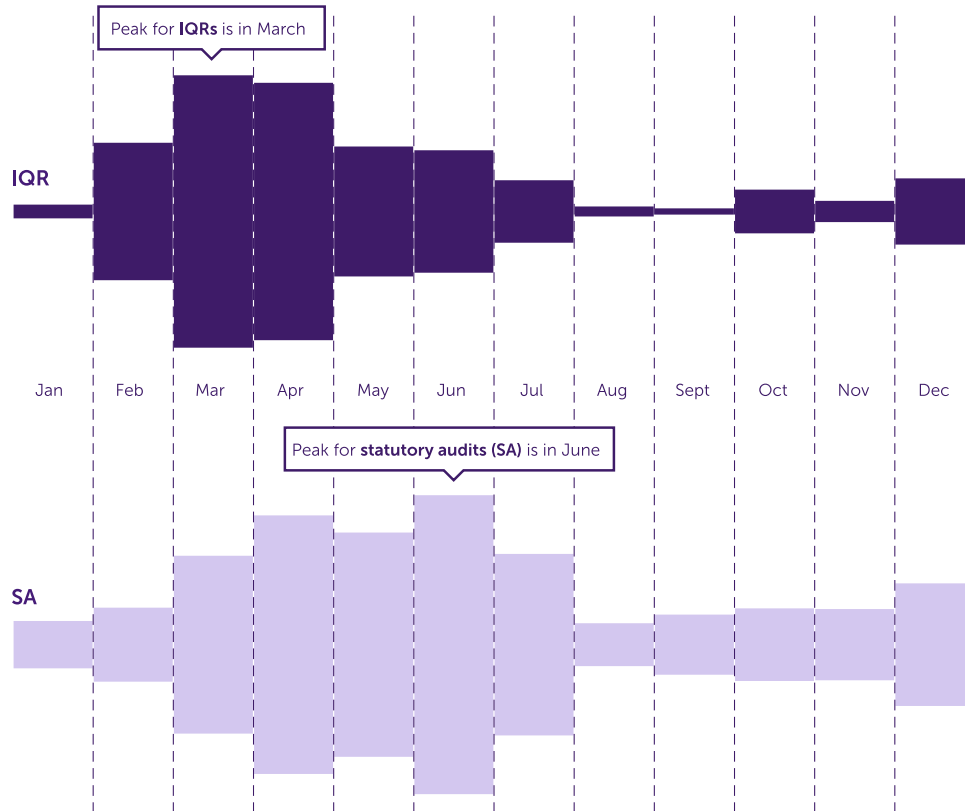


4.3 Representativeness of the sign-off date

A number of audit firms predominantly select statutory audits that have been completed recently, resulting in limited coverage of audit opinions with sign-off dates falling well before or after the IQR cycle. This leads to a shift in the IQR population that is not representative of the overall portfolio of statutory audits. At four of the six audit firms, the timing of the IQR influences the selection process, resulting in a monthly distribution of statutory audits within the IQR selection that differs from that of the overall audit portfolio.

Figure 6. Distribution of the sign-off date of statutory audits in the IQR selection compared with the sign-off date of the total population of statutory audits at the audit firms reviewed

Relative sign-off date of statutory audits selected for the IQR differs from that of the statutory audit portfolio as a whole



Good practices



The audit firm looks back twelve months when selecting statutory audits.

Each selection includes all signed and archived engagements over a twelve-month period. This gives every engagement a realistic chance of being selected and reduces the risk of sign-off dates being strategically shifted. This approach not only contributes to the representativeness of the selection but also enhances its unpredictability.



Multiple periods enhance representativeness and unpredictability.

Using multiple IQR periods per year, for example by performing internal quality reviews in both spring and autumn, demonstrably contributes to the representativeness of the selection. The AFM observes, partly based on the available data, that this approach leads to a distribution of selected engagements which, measured by the sign-off date of the audit opinion, is consistent with the profile of the audit firm's overall client portfolio.

In addition, spreading the reviews across multiple periods increases unpredictability for the engagement partners involved regarding the time at which they may be selected within the IQR.

4.4 Representativeness based on risk classification

The review shows that the selection for the IQR is only representative to a limited extent. Although policies often include the principle of a balanced selection across the population, in practice the IQR population regularly consists of statutory audits with a high-risk profile, large engagements or high-profile clients. Small or less complex engagements, by contrast, are often only represented to a limited extent in the IQR population. As a result, this selection approach affects not only the predictability of the selection, as described in section 3.2.2, Selection of statutory audits, but also the overall representativeness of the IQR population. This is explained further below.

At five of the six audit firms, statutory audits with a high or very high engagement risk are structurally selected more often than statutory audits with a standard or reduced engagement risk. The graphs below show that the IQR selection at these five audit firms is strongly focused on statutory audits with an increased risk rating. The proportion of internal quality reviews of files with a high or very high engagement risk amounts to an average of 22.3% of the total IQR selection, while these files represent an average of 11% of the total statutory audit portfolio. Files with a high or very high engagement risk therefore have approximately twice the chance of being selected for the IQR compared to files with a standard or reduced engagement risk.

Figure 7. Distribution of engagement risk for statutory audits selected for internal quality reviews (left) and the total statutory audit portfolio (right) over the period 2023-2025



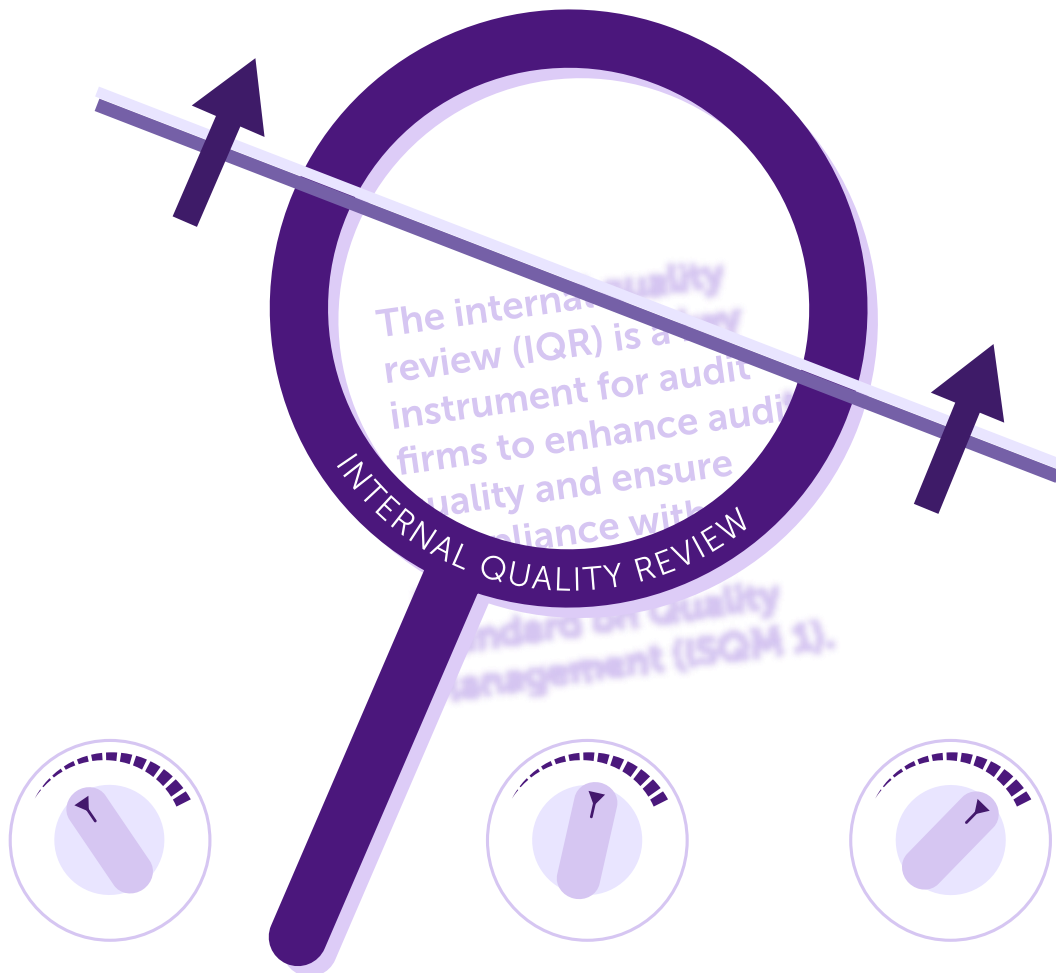
In addition to the focus on audit files with increased engagement risk, we see a similar pattern in the selection based on client risk. The review shows that in five of the six audit firms, statutory audits with a high or very high client risk are structurally selected more often than statutory audits with a standard or reduced client risk. The graphs below show that the proportion of internal quality reviews of statutory audits with a high or very high client risk amounts to 23.1% of the total IQR selection, while these files represent 9.7% of the total portfolio. In other words, files with a high or very high client risk have more than twice the chance of being selected for the IQR compared to files with a standard client risk.

Figure 8. Distribution of client risk for statutory audits selected for internal quality reviews (left) and the total statutory audit portfolio (right) over the period 2023-2025



Better IQR selection for clearer view of quality

Based on our research, the AFM concludes that improvements to the IQR by the audit firms are necessary. The IQR should be used more strategically and effectively for its intended purpose: obtaining in-depth insights into the quality of completed statutory audits as a monitoring activity to provide assurance that the internal quality system is operating effectively.



Representative view of statutory audits

In practice, the IQR population frequently consists of high-risk audits, large engagements or high-profile clients, while smaller or less complex engagements are often underrepresented.

Use of IQR as a 'learning instrument'

By focusing on a balanced, less predictable and more representative selection, and by thoroughly analysing review outcomes and incorporating them into monitoring and improvement activities, firms can derive greater value from the IQR.

Increasing unpredictability

Several audit firms select engagement partners on a cyclical basis, which means engagement partners can anticipate the review.