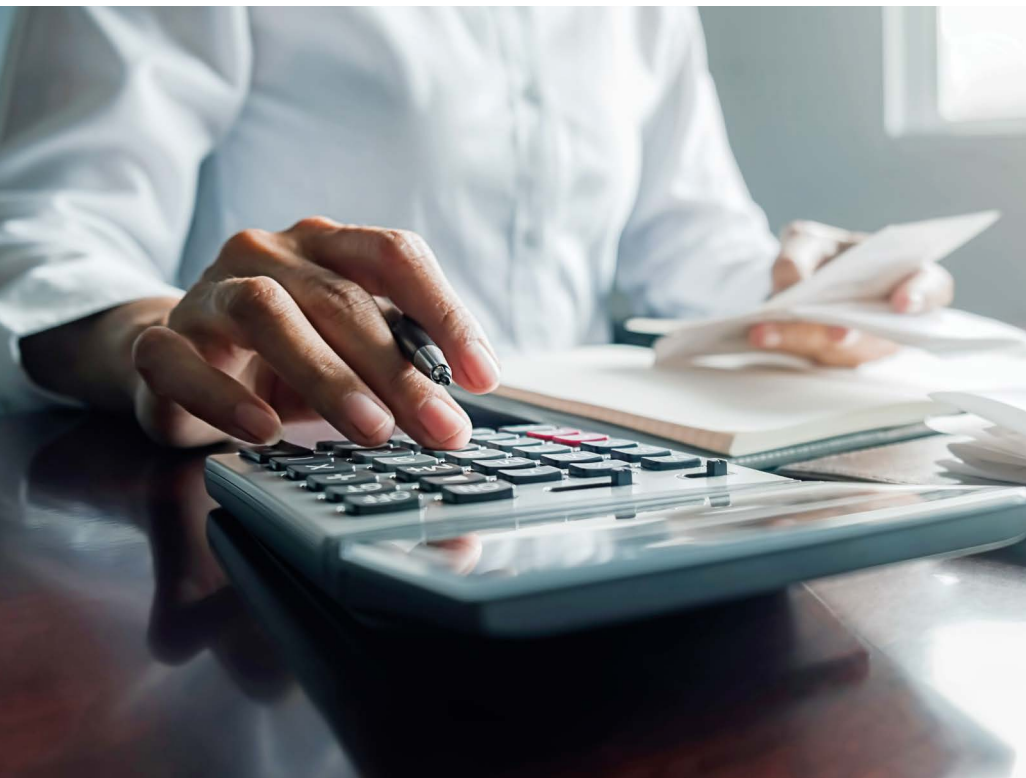




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BELGIAN AUDIT OVERSIGHT BOARD

**ANNUAL REPORT
2020**



ANNUAL REPORT OF THE BELGIAN AUDIT OVERSIGHT BOARD 2020

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1. WORD FROM THE CHAIR



In these times of coronavirus, everything has changed, including the supervision of auditors.

From the start of the health crisis, the Belgian Audit Oversight Board (BAOB) has taken all the necessary measures to guarantee the continuity of its activity, thereby fulfilling its statutory task in full even during the crisis.

Given the exceptional circumstances and in the interest of everyone's health, the BAOB also took a number of exceptional measures. One of these was to suspend quality checks for six months. When conducting inspections that were still able to take place, the BAOB prioritized conducting these fully digitally. Digitalization is, for that matter, increasingly part of the requirement of continuity and efficient organization for an audit firm.

Despite the exceptional nature of the situation and the resulting difficulties encountered by the audit profession, the BAOB continued to oversee careful compliance by the profession with the current framework of laws, standards and regulations.

After all, auditors fulfil an important role in ensuring that companies produce accurate and reliable financial reports that can inspire trust and provide a solid foundation to users of that information, especially in this period of economic uncertainty. The public's trust in financial reporting goes hand-in-hand with its trust in the audit profession.

During the period under review, the BAOB succeeded, despite the exceptional circumstances, in keeping its quality checks up to standard. This annual report provides quantitative information on the nature and scale of the BAOB's work within this first pillar of its oversight.

The BAOB's second oversight pillar is supervision.

The first priority of supervision is complaints handling. In 2020, the BAOB received 27 complaints, 22 of which were deemed admissible. Approximately a fifth of these complaints led to identifying serious indications of the existence of a practice liable to give rise to an administrative measure or an administrative fine. Once again, this showed the importance of complaints handling as a supervisory instrument.

Another aspect of supervision relates to continuing professional education on topics relevant to the profession. By requiring such training, the legislature aims to ensure that auditors possess the requisite theoretical knowledge and sufficient professional expertise. In 2020, the BAOB conducted a thematic inspection on the seminars and professional training organized by the IBR/IRE and ICCL. The results were positive. The inspections showed that almost all auditors under supervision honoured these training requirements.

In 2020, the BAOB issued its statement on the work of auditors whose client is declared bankrupt. In these cases, the auditor usually complied with his/her duty in accordance with the rules and paid due attention to continuity. If there were any remarks to be made, they most related to deficiencies with regard to the obligations with respect to archiving. Even if the bankruptcy hampers the auditor's ability to prepare an audit report, he/she must archive the audit file within a reasonable period of time after the bankruptcy.

In the year under review, the BAOB also conducted supervision, in conjunction with the IBR/IRE, of compliance with auditors' confirmation duty. Statutory auditors must confirm to the IBR/IRE each year that their data in the public register are complete and up-to-date. The vast majority of auditors comply with this duty.

Combating money laundering and terrorist financing (ML/TF) is the next important cornerstone of the BAOB's supervision. ML/TF continues to be of increasing importance and receives the full attention of the national and international supervisory authorities.

The BAOB's oversight approach translates into conducting on-site inspections of non-PIE auditors or audit firms and off-site inspections of all active auditors or audit firms. The main nonconformities identified by the BAOB in this respect include the preparation and documentation of the general risk assessment and the timely identification and verification of the identity of clients, agents and beneficial owners.

Another cornerstone of this supervision is combating fraud in financial reporting. The BAOB devotes increasing attention in its supervision to the auditor's duty to exercise professional scepticism at all times, and will act firmly in the case of any lack thereof.

The BAOB can take several measures to remedy nonconformities. In the first instance, it places a great deal of emphasis on preventive measures focused on improving the organization, working methods and the qualitative performance of the auditor's tasks. Statutory auditors are expected to conform to the applicable standards and legislation following the measures imposed.

Furthermore, the BAOB may also take corrective measures. For example, it may, where appropriate, issue a warning to an auditor for past infringements. In the case of serious nonconformities, the BAOB may decide to refer the matter to the Sanctions Committee with a view to imposing administrative measures and administrative fines. In this context, the BAOB pays particular attention to infringements that could have an impact on users' proper understanding of financial information, to infringements that relate to the role of the auditor in listed companies or entities with great societal or financial impact, and to breaches of ethical rules and to reiterated infringements.

The BAOB, with its risk-based approach, always works in a way that is proportionate. Nevertheless, the BAOB found in 2020 that a small number of sole practitioners are still not (sufficiently) familiar with the regulatory framework, despite all the training courses imparted by the IBR/IRE, and therefore also saw the need to take action, despite the limited scale of the activity of the auditors concerned.

Of course, the BAOB does not operate in a vacuum. During the health crisis, the BAOB was more than ever in close contact with other national and international supervisory authorities. This led, inter alia, to the negotiation of a memorandum of understanding with the PCAOB, the US Public Company Accounting Oversight Board. This MoU is of particular importance in light of recent regulatory developments in the United States, in particular the approval of the Holding Foreign Companies Accountable Act (HFCAC). This Act provides for the suspension of trading in financial instruments of foreign undertakings listed on American stock exchanges or American regulated markets if the PCAOB could not conduct inspections or investigations for three years or more in their home jurisdiction. The BAOB signed the MoU with the PCAOB on 12 April 2021. It also obtained the approval of the Belgian Data Protection Authority on 7 April 2021 for the data protection agreement accompanying the MoU. The MoU will enable the PCAOB to start joint inspections with the BAOB in Belgium over the course of 2021.

Cooperation with the authorities of different EU Member States is also crucial to ensure that the profession is exercised uniformly and with high quality across borders. As the competent authority in Belgium, the BAOB takes an active part in the work of the CEAOB.

Finally, I would like to extend my thanks to everyone who contributed during this difficult coronavirus year to the continuity of the BAOB's activity. In the post-pandemic period, reliable financial information will more than ever be a cornerstone for economic recovery. Not only in Belgium but also worldwide. Being able to contribute to that is what motivates the ongoing commitment of all stakeholders of the BAOB.

I hope that you enjoy reading this report. Thank you for your interest.

Bénédicte Vessié

Chair

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2. OVERVIEW OF THE SECTOR IN FIGURES FOR 2020

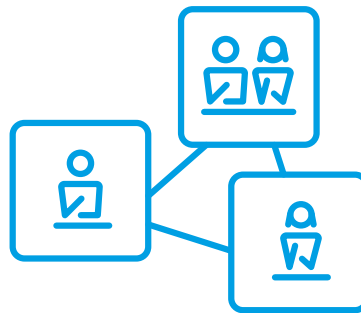
Overview of the sector in figures for 2020



862
active auditors

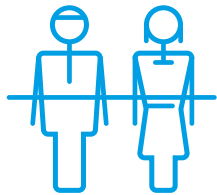


589
active audit firms

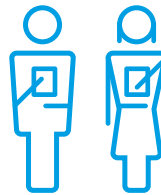


54
active audit networks

Inactive and active auditors as at 31 December 2020



18 %
inactive auditors



82 %
active auditors

Dutch-speaking and French-speaking auditors as at 31 December 2020



34 %
French-speaking auditors



66 %
Dutch-speaking auditors

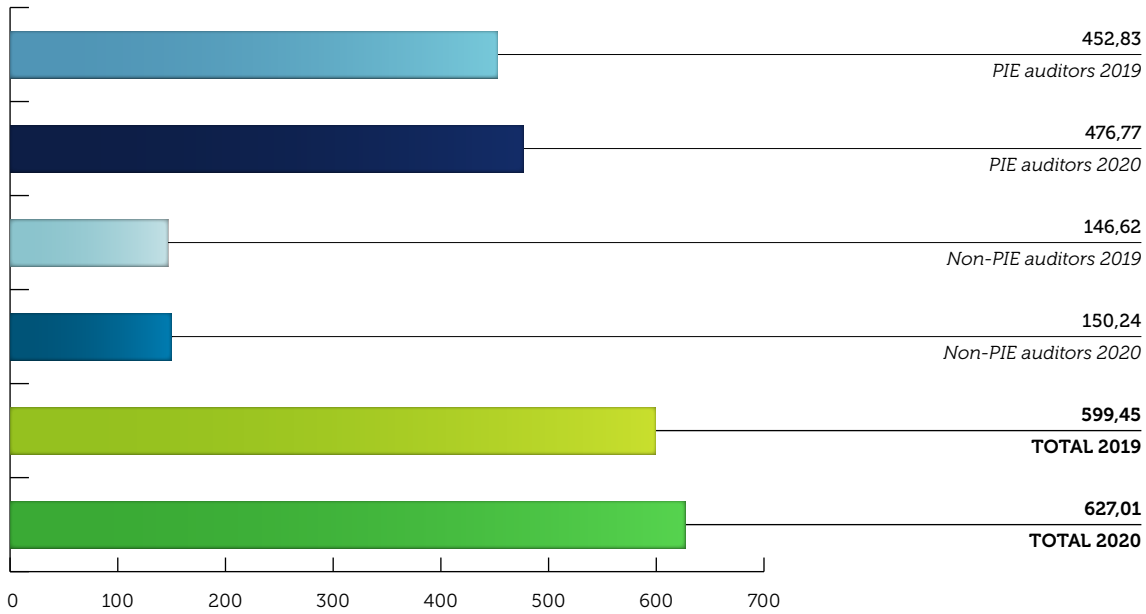
Table 1: Income from the professional activities of statutory auditors in 2019 and 2020

	PIE AUDITORS		NON-PIE AUDITORS		TOTAL	
	2020	2019	2020	2019	2020	2019
TOTAL OF ALL INCOME (IN EUR 1000)	476.768	452.830	150.240	146.617	627.007	599.446
Number of statutory audit tasks for annual accounts	17.065	16.374	12.531	12.186	29.596	28.560
Income from statutory audit tasks for annual accounts ¹ (in EUR 1000)	304.454	286.990	75.144	74.362	379.599	361.352
Statutory audit tasks for annual accounts vs total income (%)	63,86 %	63,38 %	50,02 %	50,72 %	60,54 %	60,28 %
Income from other statutory audit tasks ² (in EUR 1000)	19.718	19.106	18.448	16.745	38.166	35.851
Other statutory audit tasks vs total income (%)	4,14 %	4,22 %	12,28 %	11,42 %	6,09 %	5,98 %
Income from other audit tasks relating to financial information ³ (in EUR 1000)	50.883	62.908	12.787	12.049	63.669	74.957
Other audit tasks relating to financial information vs total income (%)	10,67 %	13,89 %	8,51 %	8,22 %	10,15 %	12,50 %
Income from audit tasks conducted for other auditors outside the network ⁴ (in EUR 1000)	8.015	6.925	3.993	5.355	12.009	12.280
Audit tasks conducted for other auditors outside the network vs total income (%)	1,68 %	1,53 %	2,66 %	3,65 %	1,92 %	2,05 %
Income from non-audit tasks ⁵ (in EUR 1000)	93.698	76.901	39.867	38.105	133.565	115.006
Non-audit tasks vs total income (%)	19,65 %	16,98 %	26,54 %	25,99 %	21,30 %	19,19 %
Number of PIE tasks	287	294			287	294
Income from PIE tasks (in EUR 1000)	50.014	50.707			50.014	50.707
PIE tasks vs total income (%)	10,49 %	11,20 %			7,98 %	8,46 %

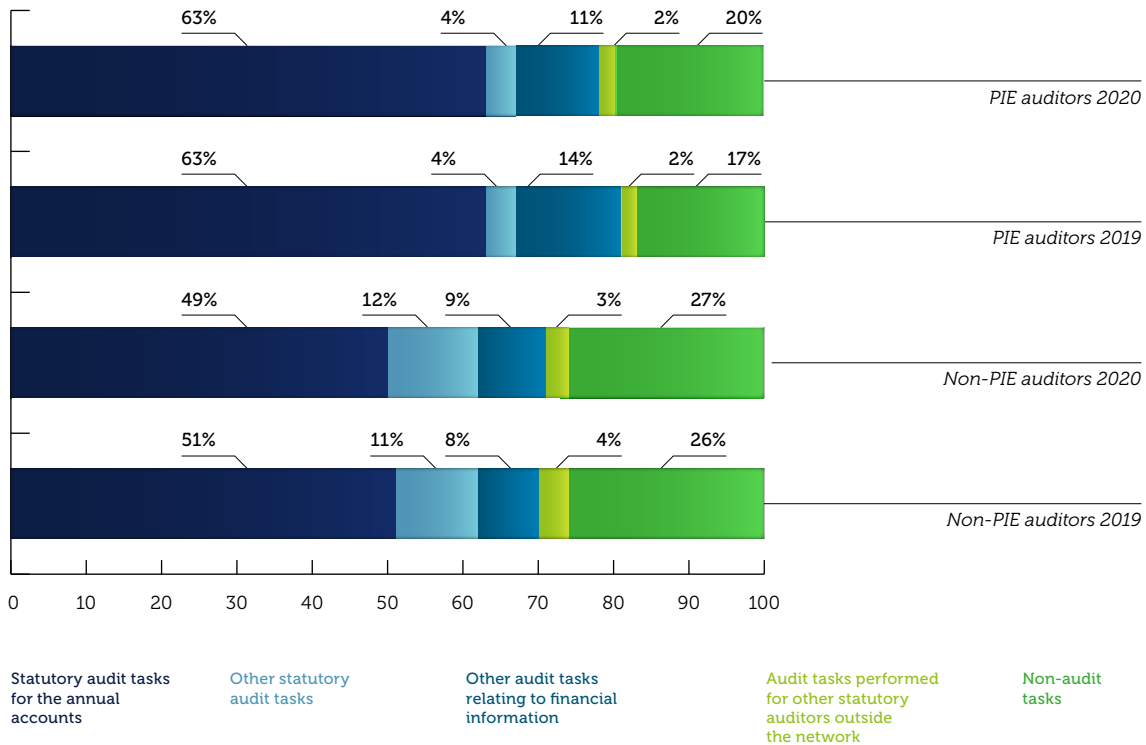
Disclaimer: the data comes from the auditors' reporting (Auditors Annual Cartography).

- 1 The statutory audit tasks concerning the annual accounts, including auditing the consolidation package, issuing a comfort letter, issuing a report for a prospectus, conducting an audit or an interim review and other tasks that are a natural extension of the engagement.
- 2 The other tasks of an auditor as laid down in the Code on Companies and Associations (contribution in kind, quasi-contribution, change in legal form, mergers and demergers, proposals for dissolution of a company, payouts of an interim dividend, changing a company's corporate object, changing the rights attaching to various types of shares or profit-sharing bonds, issuing shares below, above or at a fraction of the value of existing shares of the same type, with or without issue premium, issue of convertible bonds or subscription rights, limitation or removal of the preferential right).
- 3 The tasks of an auditor within an agreed framework, based on an audit file, that give rise to a written expert opinion and that do not come under category 1 or 2.
- 4 Audit tasks conducted as a sub-contractor for auditors who do not form part of the network to which the service provider belongs.
- 5 Non-audit tasks have to be broken down into three categories: tasks relating to an entity's accounting, tasks relating to the provision of tax services, and consultancy tasks and other professional activities except for expert opinions (arbitration, valuation of entities, due diligence tasks, new assurance services (website, environment, etc.)).

Graph 1: Income from the professional activities of auditors (in EUR million)



Graph 2: Audit and non-audit tasks as a percentage of income for the sector







3. HIGHLIGHTS OF THE BAOB'S OVERSIGHT IN 2020



The **Committee** of the BAOB deliberated during **10 meetings** and issued urgent rulings in **25 written procedures**.



The **BAOB** issued a statement on the professional activity of **67 auditors or audit firms** as part of **quality control**:

- **23** quality control files of PIE auditors or audit firms. This resulted in **104** measures;
 - **44** quality control files of non-PIE auditors or audit firms. This resulted in **259** measures.
-



Through two decisions issued on 7 May 2020, the **Sanctions Committee** sanctioned **3 auditors**: a reprimand to two auditors and a warning to one auditor.



In **27% of the complaints deemed admissible**, the BAOB ruled that the auditor concerned **had not committed an infringement**.

23% of the complaints deemed admissible led to a **further investigation**.



101 auditors did not, in 2017-2019, complete an average of 24 hours of training from the IBR/IRE or the ICCI and/or did not complete an average of 84 hours of professional training.



134 auditors did not confirm in 2020 to the IBR/IRE that their data in the public register are complete and up-to-date. The BAOB imposed a compliance deadline for each of the auditors.



The BAOB investigated **32 cases of bankruptcy**. In half of these cases, the BAOB had to intervene and impose preventive or corrective measures.



The BAOB identified **82 nonconformities** in the course of inspections focused on **compliance with the anti-money laundering law** among non-PIE auditors or audit firms.



Still on the subject of combating ML/TF, the BAOB, after analysing 263 responses on the ML/TF questionnaire (**off-site inspection**), imposed **recovery measures on 58 auditors or audit firms**.

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4. INSTITUTIONAL FRAMEWORK

- 4.1. Impact of the Covid-19 crisis on the BAOB's oversight
- 4.2. The BAOB as a supervisory authority
- 4.3. Organization
- 4.4. Professional secrecy
- 4.5. National and international cooperation

4.1. Impact of the Covid-19 crisis on the BAOB's oversight

Just like other supervisory authorities in the EU and the rest of the world, the BAOB also felt the impact of the Covid-19 pandemic.

During the Covid-19 crisis, the BAOB continued to guarantee the continuity of its activity. It adopted the measures necessary to provide optimal support to auditors so that they could continue their activity in full compliance with the applicable regulatory framework.

In the first place, the BAOB decided to suspend on-site inspections. Statutory auditors were also exempted from major requests for information as part of customary supervision. In the press release of 24 March 2020, the BAOB supported Communication 2020/04 of the IBR/IRE titled 'Potential impact of the COVID-19 crisis on audit work'.

The BAOB suspended its on-site inspection work for approximately 6 months to allow the sector to adjust to the crisis situation. In its press release of 4 May 2020, the BAOB informed auditors that supervisory activity would be resumed as well as the normal handling of cases. The BAOB also adopted measures in the interest of everyone's health. The BAOB urged inspectors to conduct inspections for the 2020 quality checks online as much as possible. The auditors and inspectors under supervision were obliged to rethink their organization and align it with new needs.

The global health crisis meant that meetings of the BAOB's governing body, the Committee, could not always take place physically.

More so than in previous years, the Committee deliberated during meetings conducted with the help of a voice telecommunication system or a written procedure. The Committee of the BAOB held a total of 10 meetings in 2020, of which 7 were physical meetings, and it issued urgent rulings in 25 written procedures.

It was necessary for meetings to be held online because of the government's emergency measures in the wake of the first lockdown in the second quarter of 2020. After this, the BAOB resumed physical meetings on its premises. In order to allow work to be conducted online, as proved necessary in exceptional circumstances, the BAOB asked Parliament for an amendment to the legislation.

The BAOB also fine-tuned its organization, the rules for which were laid down in the internal regulations⁶.

As a supervisory authority, the BAOB closely monitors how the Covid situation and government measures are evolving. This is the case in particular for on-site inspections. The BAOB scaled these back to a minimum and will continue to do so for as long as teleworking remains the rule as part of the fight against the pandemic.

⁶ The internal regulations of the BAOB are available on the BAOB's website through the following link https://www.fsma.be/sites/default/files/public/content/CTRCSR/huishoudelijkreglement_n_fr.pdf (in French and Dutch only).

4.2. The BAOB as a supervisory authority

The BAOB performs its tasks in the public interest

Statutory auditors have a major role in ensuring that financial reporting gives a true and fair view of a company. The auditor thereby contributes greatly to the credibility of published financial statements.

The BAOB is independent of auditors' professional bodies and performs its tasks solely in the public interest. It ensures that audit tasks are conducted in a qualitative, objective and independent manner. In this way, the BAOB contributes to building public confidence in companies' financial information.

The BAOB supervises compliance with the provisions of applicable laws and regulations

The BAOB's supervision occurs in the first instance on the basis of the Law of 7 December 2016. This law implements Directive 2006/43/EC.

The BAOB also bases its supervision on the International Standards on Auditing (ISA)⁷. These are the international supervisory standards, and the associated Statements and Standards, insofar as these are relevant to the statutory audit of annual accounts⁸.

The BAOB conduct its supervision not only on the basis of the legal requirements and the ISAs, but also on the basis of the professional standards laid down by the IBR/IRE and approved by the HREB/CSPE and the Minister responsible for the economy.

The BAOB is in particular responsible for:

- overseeing the granting of the status of statutory auditor and the enrolment and registration in –as well as the keeping and updating of– the public register;
- supervising continuing professional education;
- supervising the quality check systems; and
- supervising compliance with the anti-money laundering legislation.

The Law of 7 December 2016 delegates the following tasks to the IBR/IRE:

- granting and withdrawing the capacity of auditor;
- enrolments and registrations—as well as keeping and updating—the public register; and
- organizing continuing professional education.

The ultimate responsibility for the supervision and performance of the tasks delegated to the IBR/IRE falls to the BAOB.

The BAOB is independent of auditors' professional bodies and performs its tasks solely in the public interest.

⁷ The ISAs apply in Belgium since the approval by the HREB/CSPE and the Minister of Economy of the Standard of 10 November 2009 on the application of ISAs in Belgium, and more particularly on the audit of financial statements for financial years closed from 15 December 2014. Pursuant to Article 31, § 4, of the Law of 7 December 2016, these standards are binding for auditors.

⁸ Article 2(11) Directive 2006/43/EC.

The IBR/IRE is responsible for drawing up the standards to supplement the framework of laws and international standards. The BAOB supervises compliance with that framework.

The BAOB may impose preventive measures or decide on corrective measures

In the first instance, the BAOB attaches great importance to **preventive measures** focused on improving the organization, working methods and qualitative performance of the auditor's tasks. The BAOB expects auditors to comply with the applicable standards and legislation following the preventive measures imposed.

The BAOB has identified, as part of its monitoring, that its preventive approach in most cases exceeds expectations and leads to auditors improving their organization and conducting their tasks with higher levels of quality.

In some cases, however, auditors find that they are no longer able to attain the level of quality expected by the BAOB, and act accordingly. In 2020, some auditors decided to move to another audit firm in view of the need for a suitable organizational structure and for an active framework for their professional activity. Some others decided to resign as auditor.

The BAOB follows a risk-based approach in its supervision.

The BAOB follows a risk-based approach in its supervision. This entails taking into account the nature and scale of auditors' activity. Despite this proportionate approach, the BAOB also found in 2020 that a small number of sole practitioners are still not familiar or sufficiently familiar with the regulatory framework, despite all the training courses imparted by the IBR/IRE. As a result, the BAOB was forced, despite the limited scale of these auditors' activities, to take action with regard to them.

Part of the BAOB's preventive approach also entails publishing opinions on its website, explaining its expectations as a supervisory authority. It also entails the publication, in the annual report or in communications on its website, of the most common nonconformities it identifies during its supervision. The BAOB thereby aims to enhance the predictability of its supervision.

If the preventive approach does not suffice or is not appropriate, the BAOB can also take **corrective measures**.

For example, it may, where appropriate, give a warning to an auditor for past infringements if imposing a compliance deadline is not possible.

In the case of serious infringements, the BAOB may also decide to refer the matter to the Sanctions Committee, and initiate proceedings, which may give rise to administrative measures and administrative fines. A specific chamber has been established within the Sanctions Committee for measures and fines for auditors or audit firms. That chamber is composed of six magistrates and two other members with expertise in audit⁹ matters.

In exercising its ability to refer cases to the Sanctions Committee, the BAOB pays particular attention to infringements that could have an impact on users' proper understanding of financial information, to infringements that relate to the audit of listed companies or entities with great societal or financial impact, as well as to infringements of ethical rules and to repeated infringements. The BAOB also ensures that the auditor conducts sufficient and suitable audits to be able to formulate an appropriate opinion on the financial statements.

⁹ Article 3, 10^o of the Law of 7 December 2016 defines an audit task as "any task, including the task of statutory audit of annual accounts, with the objective of issuing an expert opinion on the reliability and accuracy of a set of annual accounts, an interim financial statement, a valuation or other economic and financial information, supplied by a company or institution; this term also encompasses analysis and clarification of economic and financial information for members of the works council".

4.3. Organization

The BAOB is an independent body with legal personality

The BAOB is composed of a Committee and a general secretariat.

The Committee is the governing body of the BAOB and is composed of 6 members:

- Bénédicte Vessié – Chair of the Committee and former statutory auditor;
- Sadi Podevijn – expert who is not a former auditor;
- Gregory Demal – member appointed by the FSMA;
- Greet T’Jonck – member appointed by the FSMA;
- Jean Hilgers – member appointed by the NBB; and
- Jo Swyngedouw – member appointed by the NBB.

The Secretary General, Ann De Roeck¹⁰, is tasked with the operational management of the BAOB.



Bénédicte Vessié

Chair of the Committee and former statutory auditor



Sadi Podevijn

Expert who is not a former auditor



Greet T’Jonck

Member appointed by the FSMA



Jean Hilgers

Member appointed by the NBB



Jo Swyngedouw

Member appointed by the NBB



Gregory Demal

Member appointed by the FSMA

¹⁰ As from August 2020.

The Chair of the Committee represents the BAOB vis-à-vis third parties and in court. In the absence of the Chair, the Vice-Chairs act in the following order: Sadi Podevijn and Gregory Demal.

The Secretary General prepares and implements the decisions of the Committee. She also conducts investigations for cases that the BAOB decides to refer to the Sanctions Committee.

The FSMA provides the general secretariat to the BAOB. The general secretariat of the BAOB can call on the administrative, operational and logistics support of the FSMA. The memorandum of understanding between the FSMA and the BAOB of 18 October 2017 sets out the relations between the two independent bodies.



Ann De Roeck
Secretary General

The operating expenses of the BAOB form part of the FSMA's overall budget

The memorandum of understanding between the FSMA and the BAOB of 18 October 2017 defines, inter alia, the methods for applying the budgetary and financial framework established by the Law of 7 December 2016. The operating expenses of the BAOB are part of the FSMA's overall budget. Ultimately, it is the sector that covers the BAOB's operating expenses through the contributions of auditors and audit firms registered in Belgium.

Drawing up the BAOB's budget and estimating its costs follow a strict procedure. It is not only the BAOB that has to give its approval. The procedure also requires the approval of the FSMA's Supervisory Board, the FSMA's Management Committee and a positive opinion by the FSMA's Audit Committee.

The Royal Decree of 25 December 2016 on the budgetary limits and the coverage of the operating expenses for the public supervision of auditors provides for a budgetary limit of EUR 2.8 million per year, adjusted to salary scales and the evolution of the index. The IBR/IRE collects the contributions from the sector and pays an overall amount annually to the FSMA.

This maximum contribution was EUR 3.101.615 for the year 2020. The operating expenses of the BAOB for 2020 were EUR 2.191.876. The Committee of the BAOB estimates the full use of the budget within a period of a maximum of three years in line with the gradual development of the work of the BOAB and the full complement of the workforce.

4.4. Professional secrecy

The BAOB is bound by the obligation of professional secrecy under criminal law. This means that the BAOB may not disclose any confidential information it might acquire during the exercise of its task.

Articles 44 and 45 of the Law of 7 December 2016 regulate the professional secrecy of the BAOB.

The BAOB, the Chair and members of the Committee, the members of the Sanctions Committee, and the staff of the FSMA who contribute to the exercise of the BAOB's tasks are bound by professional secrecy. Professional secrecy also applies to inspectors and external experts appointed by the BAOB.

The BAOB may disclose confidential information to specific third parties under the strict conditions set out in Article 45 of the Law of 7 December 2016.

4.5. National and international cooperation

The BAOB places a lot of importance on high-quality cooperation with national and international bodies.

4.5.1. National cooperation

The BAOB works very closely with the **NBB**. The memorandum of understanding of 14 June 2019 defines the cooperation in the exercise of their respective tasks and the methods for sharing information between themselves¹¹.

The BAOB also cooperates closely with the **FSMA**. The memorandum of understanding between the FSMA and the BAOB of 18 October 2017 defines the relations between the two independent bodies¹². The FSMA provides the general secretariat of the BAOB and the BAOB can call on the FSMA's central inspection team to conduct quality checks at PIE auditors¹³.

As part of its supervision, the BAOB can decide to refer a matter to the **Sanctions Committee of the FSMA**. In that case, the BAOB initiates proceedings which may give rise to imposing administrative measures ranging from a warning to the withdrawal of the status of auditor and the imposition of administrative fines¹⁴.

As already stated, the BAOB conducts its supervision of auditors based, inter alia, on the professional standards laid down by the **IBR/IRE** and approved by the HREB/CSPE and the Minister responsible for the Economy. This involves close cooperation by the BAOB with the IBR/IRE and the HREB/CSPE.

The BAOB and the **HREB/CSPE** continued their regular consultations in the year under review. The BAOB consulted the HREB/CSPE on the inspection guidelines and work programmes published by the BAOB that it uses when conducting quality checks. In 2020 too, the HREB/CSPE asked the BAOB for advice on a range of draft standards, namely:

1. the draft of the additional standard (2020 revised version) to the international audit standards that apply in Belgium;
2. the draft standard on the application of the Law of 18 September 2017 on the prevention of money laundering and terrorist financing and on the restriction of the use of cash;
3. the draft standard on the tasks of accredited auditors at mutual entities;
4. the draft standard on continuing professional education; and
5. the draft standard on the tasks of auditors as part of a contribution in kind or quasi-contribution.

¹¹ The memorandum of understanding is available on the website of the BAOB through the following link: https://www.fsma.be/sites/default/files/public/content/MoU/2019-06-14_protocole_ctrcsr_nbb.pdf.

¹² The memorandum of understanding is available on the website of the BAOB through the following link: https://www.fsma.be/sites/default/files/public/content/MoU/2017-10-18_protocole_ctrcsr_fsma.pdf.

¹³ See 'Quality checks on non-PIE auditors and audit firms'.

¹⁴ The administrative measures and fines the Sanctions Committee can impose are defined in Article 59 of the Law of 7 December 2016.

The Sanctions Committee is composed as follows:



Michel Rozie, Chair
Honorary first president of the Antwerp Court of Appeal, member of the Sanctions Committee in the capacity of magistrate who is not a counsellor at either the Supreme Court or the Brussels Court of Appeal



Martine Castin
Member of the Sanctions Committee with appropriate expertise in the area of statutory audits of annual



Kristof Stouthuysen
Member of the Sanctions Committee with appropriate expertise in the area of statutory audits of annual accounts



Sofie Cools
Member of the Sanctions Committee



Erwin Francis
Counsellor of the Supreme Court, member of the Sanctions Committee at the recommendation of the first president of the Council of State



Guy Keutgen
Member of the Sanctions Committee



Jean-Philippe Lebeau
President of the Commercial Court of Hainaut, member of the Sanctions Committee in the capacity of magistrate who is not a counsellor at either the Supreme Court or the Brussels Court of Appeal



Christine Matray
Counsellor of the Supreme Court, member of the Sanctions Committee at the recommendation of the first president of the Council of State



Pierre Nicaise
Member of the Sanctions Committee



Philippe Quertainmont
Counsellor of the Council of State, member of the Sanctions Committee at the recommendation of the first president of the Council of State



Reinhard Steennot
Member of the Sanctions Committee



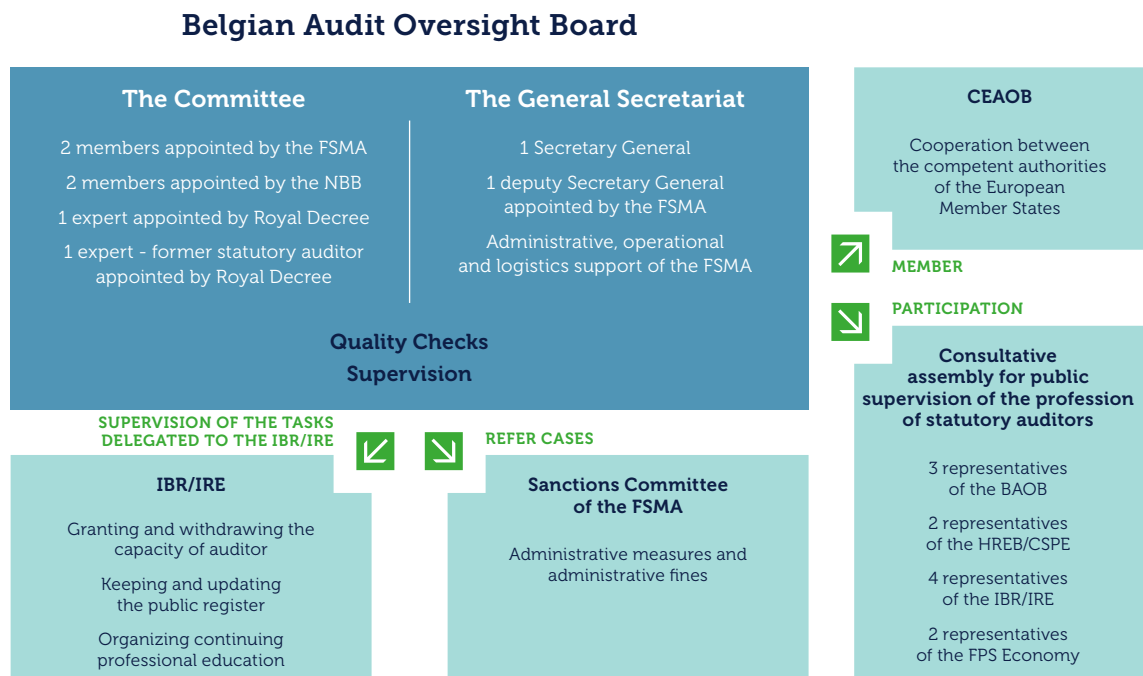
Marnix Van Damme
Chamber President of the Council of State, member of the Sanctions Committee at the recommendation of the first president of the Council of State

As part of the analysis of a draft standard, the BAOB ascertains, inter alia, whether the content of the standard is predictable and accessible, so that everyone, and in particular the auditor, can correctly apply and understand the standard, and that the BAOB can, where applicable, enforce it.

In 2020, the BAOB continued its dialogue with the **IBR/IRE**. This included the task delegated to the IBR/IRE on the public register for which the BAOB bears ultimate responsibility¹⁵. In 2020, the BAOB launched a supervisory campaign on the quality of the data in the public register¹⁶. The IBR/IRE in cooperation with the BAOB will continue this work in 2021.

The **consultative assembly for public supervision** of the profession of statutory auditors takes place on an annual basis. Due to the pandemic, the meeting of 9 December 2020 took place via videoconference. The consultative assembly handles general matters concerning public supervision of the profession. The Chair of the Committee of the BAOB, two representatives of the BAOB, two representatives of the HREB/CSPE, four representatives of the IBR/IRE and two representatives of the FPS Economy took part.

Figure 1: Public supervision of statutory auditors in Belgium



¹⁵ See 'The Board as a supervisory authority' in this annual report.

¹⁶ See "Public register" in this annual report.

4.5.2. International cooperation

Cooperation between the competent authorities of the European Member States is delivering an increasing contribution to the quality of supervision. This is why, in 2020 as well, the BAOB took an active part in the work of the **CEAOB**. Representatives of the BAOB are present in various working groups and in two of the four colleges set up by the CEAOB for the four main European audit networks.

The audit market is not limited to the territory of Europe. To achieve a level playing field between the BAOB's supervision and global supervision, the BAOB is a member of the **International Forum of Independent Audit Regulators (IFIAR)**.

In 2020, the BAOB took part in several investigations launched by IFIAR. In 2020, IFIAR issued an internal report on international developments in the audit market. The BAOB took part in the underlying survey in 2019. The BAOB considers it valuable to combine the high-level results from international analyses with its own findings within Belgium. In this way, the BAOB contributes to convergence in supervision with a view to improving the quality of audits.

Throughout 2020, the BAOB negotiated a cooperation agreement with the **PCAOB**, the American supervisory body for auditors. This agreement will allow for information to be shared between the two supervisory authorities and allow the PCAOB to start joint inspections with the BAOB in Belgium. The BAOB signed the cooperation agreement with the PCAOB on 12 April 2021¹⁷.

These negotiations also entailed entering into a data protection agreement that regulates the sharing of data in accordance with the GDPR. The Belgian Data Protection Authority approved the data protection agreement on 7 April 2021¹⁸. This makes Belgium the second EU member state to enter into a Protocol with the PCAOB that is accompanied by a data protection agreement that is fully compliant with the applicable legislation regarding the protection of personal data and with the position of the European Data Protection Committee in this regard.

This cooperation agreement with the PCAOB is of particular importance in light of recent regulatory developments in the United States, and in particular the approval of the Holding Foreign Companies Accountable Act (HFCAC). This Act provides for the suspension, by the U.S. Securities Exchange Commission, of trading in the financial instruments of foreign undertakings listed on American stock exchanges or American regulated markets if the PCAOB was unable to conduct inspections or investigations for three years or more in their home jurisdiction.

¹⁷ The press release "The Belgian Audit Oversight College signs a cooperation agreement with the Public Company Accounting Oversight Board (PCAOB)" is available on the BAOB's website under the following link: <https://www.fsma.be/en/news/belgian-audit-oversight-college-signs-cooperation-agreement-public-company-accounting>.

¹⁸ DPA Decision no. 03/2021 of 7 April 2021.





5. QUALITY CHECKS

- 5.1. Impact of the Covid-19 crisis on quality checks in 2020
- 5.2. Methodology
- 5.3. Risk and network approach
- 5.4. Proportionality principle, adversarial debate and respecting the auditor's opinion
- 5.5. Quality checks of PIE auditors and audit firms
- 5.6. Quality checks of non-PIE auditors and audit firms

5.1. Impact of the Covid-19 crisis on quality checks in 2020

The global health crisis forced the BAOB to suspend quality checks of non-PIE auditors and PIE auditors for six months. As a rule, the quality checks start in May. In 2020, the BAOB, for safety reasons, postponed the start of the quality checks to the last quarter of 2020.

The suspension of the quality checks in 2020 does not in any way affect the cycle of quality checks at auditors or audit firms. The BAOB ensures that PIE auditors are subjected at least every 3 years, and non-PIE auditors at least every 6 years, to a quality check based on a risk analysis¹⁹.

Digitalization is, in any case, increasingly part of the requirement of continuity and efficient organization for an audit firm.

The BAOB communicated openly with its appointed inspectors regarding the suspension of the quality checks. The quality checks of PIE auditors are conducted by the Central Inspection Team of the FSMA, potentially with the support of external inspectors appointed pursuant to the public procurement contract of 7 January 2020 by the Management Committee of the FSMA. To conduct quality checks of non-PIE auditors, the BAOB calls on active auditors. The public procurement process held in 2018 by the FSMA led to the designation of 38 auditor inspectors²⁰ to conduct the non-PIE quality checks in 2019 and 2020.

Still in light of the Covid-19 government measures, the BAOB decided to conduct inspections online as much as possible.

Digitalization is, in any case, increasingly part of the requirement of continuity and efficient organization for an audit firm.

From a risk-based approach, the BAOB decided to conduct the quality checks in 2020 on a thematic basis, including:

- the theme of ‘Monitoring’ (ISQC 1.48-54); and
- the theme of ‘Acceptance and Continuance of Client Relationships and Specific Engagements’ (ISQC1.26-28). This theme also encompasses the relevant ethical standards and the need to identify clients as required by the ML/TF legislation.

This thematic approach allows the aforementioned themes to be inspected in-depth, while at the same time testing the main quality standards for conducting the auditor’s audit tasks.

The BAOB adapted the work programmes for quality checks of PIE auditors in 2020 in accordance with this new thematic approach. The work programmes were also adapted and structured in line with the Common Audit Inspection Methodology (CAIM), which is being taken up more and more widely among the members of the CEAOB. The revised work programmes are available on the website of the BAOB.

¹⁹ Article 52, §§ 1 and 2 of the Law of 7 December 2016.

²⁰ There are 30 inspectors for the Dutch-language segment and 8 inspectors for the French-language segment.

Consequently, the BAOB also adapted the supervision guidelines for the quality checks of non-PIE auditors along the same lines. These revised supervision guidelines have also been published by the BAOB on its website.

In view of the postponement of the start of the quality checks in 2020 due to the pandemic, the BAOB will be able to assess these cases in 2021 at the earliest.

Caveat: For this reason, the statistics in this annual report do not relate to the quality checks conducted in 2020 by the BAOB.

5.2. Methodology

In 2020 the BAOB examined the professional activity of **67 auditors or audit firms** using quality checks. This number is lower than in 2019 because of the suspension of the quality checks for approximately six months due to the Covid-19 crisis.

The BAOB ascertains whether the auditors under supervision have an organization that is suited to the nature and scale of their activities. The quality check also aims to verify whether auditors perform their activities in accordance with the audit standards and the applicable ethical rules.

The BAOB handled **23 quality check files** of auditors or audit firms that audit one or more **PIEs**. It also focused on **44 quality check files** of auditors or audit firms that audit only **non-PIEs**.

The BAOB has a number of measures at its disposal following a quality check. Based on all the relevant aspects of an individual case, if it identifies nonconformities, the BAOB decides on the most appropriate measure to take.

As part of the **preventive approach**, the BAOB may decide to impose the following measures:

- **Point requiring attention:** the BAOB focuses on the importance of a legal, regulatory or normative requirement. The nonconformity identified does not influence the supervised auditor's opinion of the financial statements. Although the auditor does not need to report back, the BAOB expects the auditor to adjust his/her way of working. If the BAOB identifies that a provision under a law, regulation or standard already gave rise during a previous quality check to a point requiring attention, it considers this repetition an aggravating circumstance to lay down a stricter measure.
- **Recommendation:** the BAOB identifies an infringement of the regulatory framework. The infringement affects the requisite quality of the firm's work or operations. The BAOB expects the auditor to follow the recommendation within a specified period of time and states what is expected for each recommendation. The auditors themselves suggest measures to the BAOB to remedy the nonconformity identified and ensure compliance with the provisions concerned.
- **Compliance deadline:** the BAOB identifies an infringement of the regulatory framework. The infringement affects the requisite quality of the firm's work or operations. The BAOB lays down a deadline by which the auditor must take the measures determined by the BAOB in order to comply with the laws and regulations. For each compliance deadline, the BAOB specifies what is expected. The BAOB follows up on whether the measures have been implemented.

The BAOB may also decide to impose both preventive measures for the future that have to be fulfilled within a reasonable period of time, and corrective measures in the case of past infringements.

As part of **corrective measures** in a case, the BAOB may, among other things, issue a **warning**.

By virtue of Article 57, § 5 of the Law of 7 December 2016, the BAOB may issue a warning to the auditor if the facts the auditor is accused of, although established, do not justify imposing a compliance deadline.

The Secretary General of the BAOB may also conduct an investigation that may lead to the BAOB referring the matter to the **Sanctions Committee of the FSMA** to impose sanctions other than a warning. The Sanctions Committee rules on the cases referred to it by the BAOB. The Sanctions Committee has a broad array of administrative measures at its disposal, ranging from a warning to the withdrawal of the capacity of auditor as well as administrative fines, all of which are defined in Article 59 of the Law of 7 December 2016.

Decision of 7 May 2020 of the Sanctions Committee of the FSMA - Non-compliance with the ISA 230 audit standard (Audit Documentation) - Reprimand and warning - Anonymized publication

On 7 May 2020, the Sanctions Committee imposed, in two decisions, a sanction on three statutory auditors for infringements of the ISA 230 audit standard concerning audit documentation.

In the first decision, the Sanctions Committee reprimanded two auditors for non-compliance with ISA 230.16. This audit standard sets out the circumstances under which modifications may be made after the assembly of the final audit file has been completed. The Sanctions Committee established that these auditors had, after a review of their audit files, added documents and made other modifications such as backdating certain documents to a date after the final audit file had been assembled. Those modifications only met some conditions of ISA 230.16 in the sense that the electronic files stated when they were made and by whom, but the reasons for making these modifications were lacking. Taking into account the specific characteristics of the cases, the Sanctions Committee ruled that the modifications made by the auditors were not minor, and therefore reprimanded them.

In its second decision, the Sanctions Committee issued a warning to an auditor who had also failed to comply with ISA 230.16. The auditor had added a note, when reviewing the audit files, to an electronic audit file that was already final. Although this modification met some of the conditions of ISA 230.16 because it stated when it was made and by whom, the reason for adding the note was lacking. Taking into account the specific characteristics of the case, the Sanctions Committee ruled that the modification made by the auditor by adding the note was minor and therefore issued a warning.

The decisions of 7 May 2020 were published without mentioning names. Taking into account the specific characteristics of the cases, the Sanctions Committee was of the opinion that publishing names would be disproportionate.

The auditors did not appeal the decisions of 7 May 2020.

The table below shows the decisions of the BAOB as regards quality checks it investigated in 2020 and 2019.

Table 2: Decisions of the BAOB on the quality checks examined in 2020 and 2019.

BAOB decision	Number of quality checks examined in 2020	Number of quality checks examined in 2019
Cases that passed	3	4
Cases solely with points requiring attention	4	16
Cases with recommendations	47	60
Cases with warnings	8	13
Cases with a compliance deadline	5	13
TOTAL	67	106

5.3. Risk and network approach

The BAOB subjects auditors to a quality check at least every six years. For auditors or audit firms that audit one or more PIEs that individually exceed more than one criterion as referred to in Article 1:26, § 1 of the Belgian Code on Companies and Associations²¹, it occurs at least every three years.

A risk analysis is the basis for determining the amount of time between two quality checks. The BAOB oversees compliance in this respect with the statutory maximum terms. The risk assessment is based, inter alia, on the following criteria:

- the cartography of the sector (Auditors Annual Cartography);
- any signals from third parties (articles in the press, complaints or other supervisory authorities);
- the results of previous inspections.

The BAOB conducts the risk assessment every year. On the basis of the risk assessment, it selects the auditors or audit firms to be inspected.

If a network of non-PIE auditors or audit firms has shared procedures for quality control, the BAOB organizes their quality checks based on the network. In this respect, the BAOB emphasizes the importance of correct reporting. Statutory auditors do not always correctly declare in the Auditors Annual Cartography²² whether they form part of a network with or without shared procedures for quality control.

The BAOB also emphasizes that the firms within the same network have to apply the shared procedures in a similar way. Where applicable, this finding has an impact on the BAOB's assessment of the scale of a quality check.

²¹ Article 1:26, § 1, of the Belgian Code on Companies and Associations provides that: "A company along with its subsidiaries, or companies that together form a consortium, are considered to constitute a group of limited scale, if these companies together, on a consolidated basis, do not exceed more than one of the following criteria:

- annual average headcount: 250;
- annual revenue, excluding VAT: EUR 34,000,000;
- balance sheet total: EUR 17,000,000;"

²² Pursuant to Article 55 of the Law of 7 December 2016, the BAOB collects information from auditors every year through the "Auditors Annual Cartography".

5.4. Proportionality principle, adversarial debate and respecting the auditor's opinion

5.4.1. Proportionality principle

The BAOB's supervision is resolutely based on the proportionality principle²³. The BAOB uses its investigative powers, taking into account:

- the scale and complexity of the auditor's activities; and
- the scale and complexity of the activities of the entity that is the subject of the audit.

The Committee of the BAOB decides on how to follow up on the findings of the quality check. These quality assessments are appropriate and proportionate to the scale and complexity of the activities of the auditor²⁴. This does not mean that smaller firms are exempt from complying with the applicable laws and regulations.

The proportionality principle is exemplified, among other things, in the way the BAOB assesses the auditor's organizational requirements²⁵. The BAOB acknowledges that smaller firms, for certain office procedures under ISQC 1, do not require the same amount of detail as the larger firms.

As required by law and by the ISAs, the BAOB expects smaller firms nevertheless to sufficiently document their work when conducting their statutory audit tasks. An audit file is assembled in a coherent and structured way. Any experienced auditor who was not involved in the previous audits should be able to gain an insight, based on the audit file, of how the audit work was conducted and how the auditor's opinion was formed.

The proportionality principle is also an integral part of the BAOB's assessment of the audit task. The auditor applies the professional standards in proportion to the scale and complexity of the activity of the entity for which he or she conducts an audit²⁶.

The BAOB expects smaller audit firms also to document their work appropriately when performing their statutory audit tasks.

5.4.2. Adversarial debate

Another important principle when conducting a quality check is adversarial debate. During the quality checks, the BAOB hears the supervised auditor on the subject of the provisional findings. This gives the auditor a chance to make remarks.

²³ Article 54, § 1, second paragraph of the Law of 7 December 2016.

²⁴ Article 52, § 3, of the Law of 7 December 2016.

²⁵ Article 19, § 1, of the Law of 7 December 2016.

²⁶ Article 31, § 5, of the Law of 7 December 2016.

5.4.3. Respecting the opinion of the auditor

The BAOB upholds the opinion of the auditor on the annual accounts insofar as it has come about in the correct way and the auditor has substantiated it with the necessary arguments. It goes without saying that the auditor takes into account all material risks.

5.5. Quality checks of PIE auditors and audit firms

5.5.1. Types of nonconformities identified in PIE files

In 2020, the BAOB handled quality check files of **3 audit firms and 20 auditors who audit one or more PIEs. It imposed 104 measures** on the firms and the auditors concerned.

The underlying inspections can be broken down into two categories with a different supervisory approach and therefore a different inspection method.

For the first category of inspections, the BAOB used a supervisory approach comparable with previous years. The perimeter of these inspections encompasses two topics of an audit firm's quality check system, as set out in ISQC 1, namely:

- engagement quality control review (EQCR); and
- monitoring.

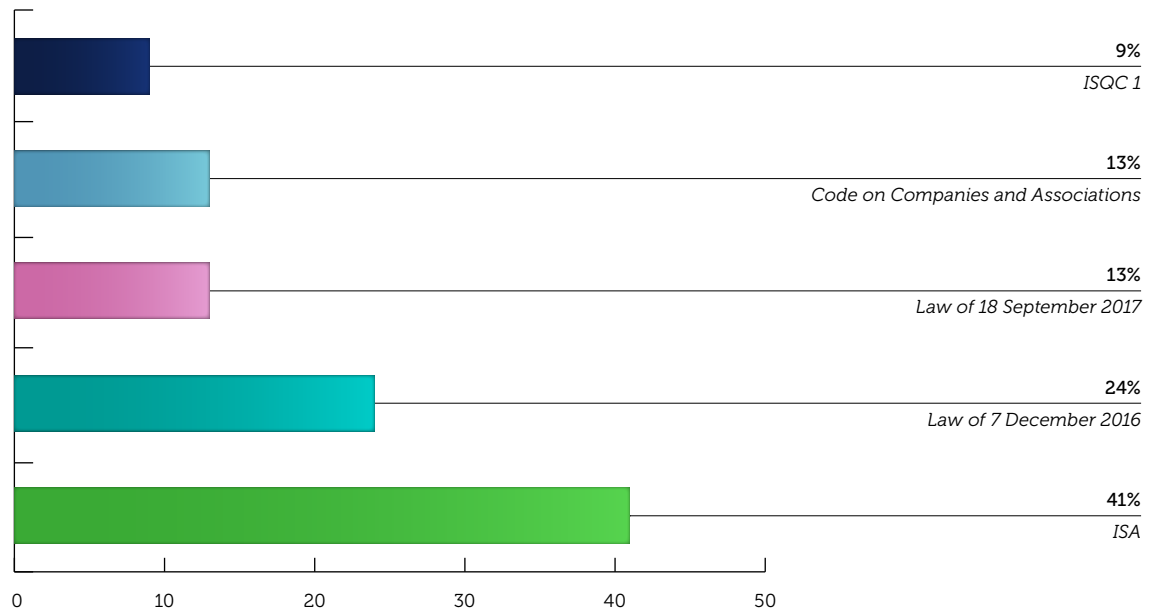
A second category of inspections conducted at PIE auditors or audit firms focuses on compliance with:

- the Law of 18 September 2017; and
- the legislation and regulations on the role of the statutory auditor vis-à-vis the audit committee, including the provision of non-audit services.

Both categories of inspections encompass:

- the analysis of the set-up of the internal quality control system; and
- the application of these procedures and the framework as regards standards and laws in individual audit files.

Graph 3: Types of nonconformities identified in PIE files



41% The majority of nonconformities (41%) that the BAOB identified during the quality checks at PIE auditors or audit firms concern nonconformities as regards ISAs.

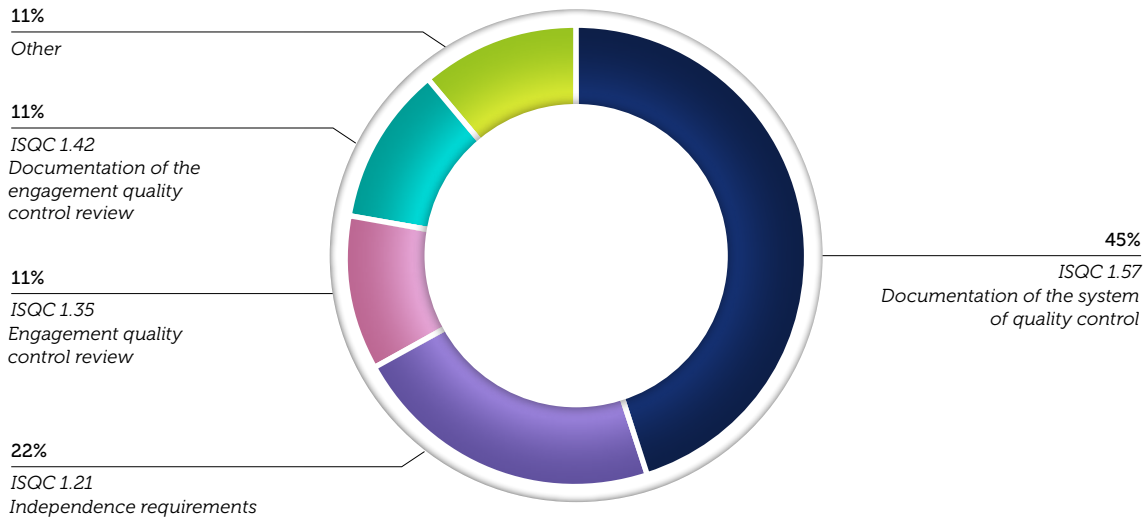
24% The second largest number of nonconformities (24%) concerned the application of the Law of 7 December 2016.

13% Thirteen (13%) of the nonconformities identified at PIE auditors or audit firms concern the application of the Law of 18 September 2017 and the same percentage applies to nonconformities concerning the Belgian Code on Companies and Associations.

9% The BAOB identified nonconformities to a lesser extent (9%) concerning ISQC 1.

5.5.2. Nonconformities with respect to ISQC 1 in PIE files

Graph 4: Nonconformities with respect to ISQC 1 in PIE files



Top 3 nonconformities in order of frequency

1. **Insufficient documentation of the quality control system**
2. **Insufficient rules on independence**
3. **No criteria or no testing of criteria for the engagement quality control review**

45% 45% of nonconformities identified by the BAOB in the organization at PIE audit firms concern **ISQC 1.57**. The audit firms concerned did not have suitable policies and procedures that provide for sufficient **documentation on how the quality control system works**.

An audit firm may not limit itself to documenting the audit work in an audit file. It must also document that it is in fact carrying out the procedures in laid down in the quality control system.

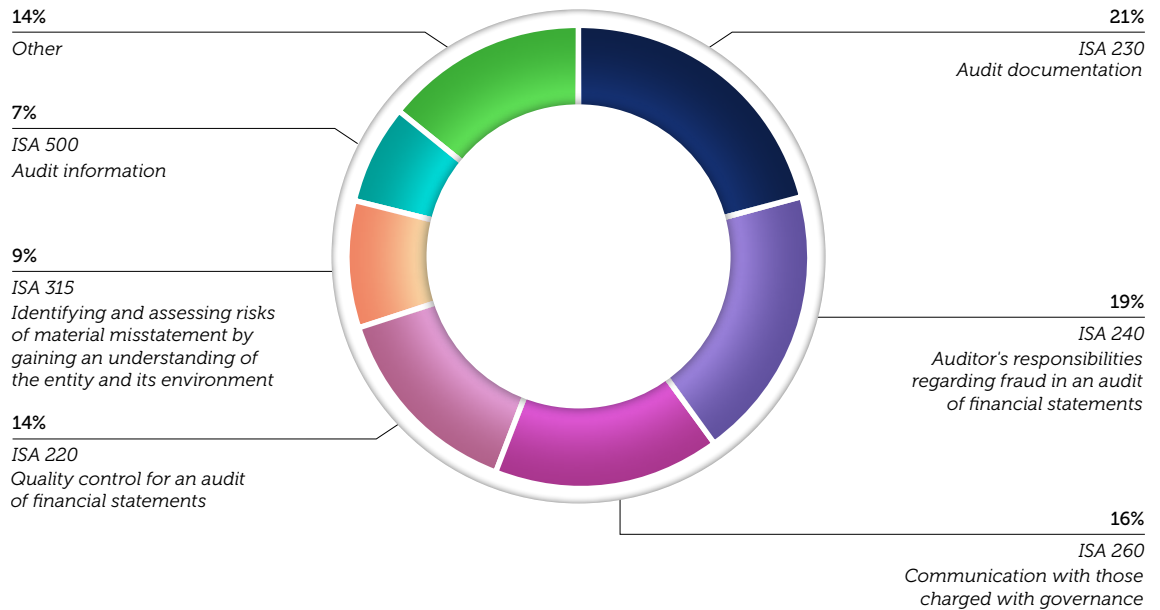
22% An audit firm's procedures must ensure that **its personnel maintain independence** as set out in **ISQC 1.21**. The BAOB found that in 22% of nonconformities in the organization of PIE audit firms, this was not the case.

11% **ISQC 1.35** and **ISQC 1.42** each represent 11% of the nonconformities found. Both relate to the **engagement quality control review**. In that respect, auditors must, inter alia, determine the criteria by which they test their audit tasks to determine whether an EQCR must take place.

The BAOB found that, despite publishing its position on EQCR on its website²⁷ and a discussion on this topic in its 2019 annual report, some auditors still fail to document this test in their audit file or at the level of the audit firm.

5.5.3. Nonconformities with respect to ISAs in PIE files

Graph 5: Nonconformities with respect to ISAs in PIE files



Top 3 nonconformities in order of frequency

1. Unsuitable or insufficient audit documentation
2. Insufficient review of the risk of a material misstatement as a consequence of fraud
3. Late, insufficient or lack of written communication with those charged with governance

21% A considerable proportion (21%) of the nonconformities found concerning the ISAs at PIE auditors relate to **ISA 230**, and more specifically ISA 230.8. This standard concerns **audit documentation** and applies throughout every phase of an audit.

Statutory auditors must prepare the audit documentation in such a way as to allow an experienced auditor who was not previously involved in the audit to understand and assess the work conducted.

²⁷ Opinion of the BAOB on the engagement quality control review, 13 December 2018, https://www.fsma.be/sites/default/files/public/content/CTRCSR/opinions/20181213_eqcr_nl.pdf.

The nonconformities identified in 2020 relate to an absence or lack of documentation. The BAOB found ambiguities in these audit files on the purpose of the audit, the work conducted and the audit findings of the PIE auditor.

19% The second most common nonconformity (19%) is based on **ISA 240**. This standard determines the **auditor's responsibilities relating to fraud** in an audit of financial statements.

Statutory auditors must always estimate the unpredictability of the manner in which management can override internal controls and handle this as a significant risk²⁸. This concerns a risk of material misstatement that is the consequence of management being in a unique position to perpetrate fraud (ISA 240.27 and 31).

Furthermore, auditors must pay sufficient attention to reviewing journal entries (ISA 240.32), incorporating an element of unpredictability in the selection of the nature, timing, and extent of further audit procedures to be performed (240.29) and sufficiently discussing the susceptibility of the entity's financial statements to material misstatement arising from fraud (ISA 240.15).

16% 16% of the nonconformities found concerning the ISAs at PIE auditors relate to **ISA 260**, especially as regards **communication with those charged with governance**. Statutory auditors must properly identify those charged with governance, such as an audit committee, and inform them on aspects such as:

- the planned scope and timing of the audit;
- the responsibilities of the auditor and those charged with governance;
- the auditor's view on significant qualitative aspects of the entities' administrative processing, including the bases for financial reporting, estimates and notes included in the financial statements;
- any significant deficiencies that the auditor has identified during the audit.

This communication has to happen on time and in writing. The auditor must include a written communication in the audit file or put what has been communicated orally into writing.

14% In the fourth place, the BAOB found nonconformities in 14% of PIE auditors concerning **ISA 220**. ISA 220 handles the **repercussions of the quality control of audit files** in line with ISQC 1.

The BAOB found nonconformities as regards documentation of the EQCR. In the audit files examined, the BAOB transpired not to be able to conclude, on the basis of the audit documentation, whether the EQCR was completed on time, i.e. before the date of the audit report.

The BAOB decided, moreover, in one audit file examined that group reporting that encompasses the same entity as the statutory task must, in the absence of clear criteria from the audit firm, lead to the same conclusion on whether or not to conduct an EQCR. It is up to the audit firms to clearly define in their criteria what type of task must undergo an EQCR. Statutory auditors must then consistently apply these findings in their files.

²⁸ A significant risk is an identified and assessed risk of material misstatement to which the auditor must pay particular attention during the audit by virtue of the auditor opinion.

9% To a lesser extent (9%), the BAOB found nonconformities in PIE auditors concerning **ISA 315**. One of the objectives of the auditor is to **identify and assess the risk of material misstatement by gaining an understanding of the entity and its environment**. In this way, the auditor obtains a basis for designing and implementing responses to the assessed risks of material misstatement.

The aforementioned exercise forms an essential element in properly prepared audit file.

The nonconformities identified by the BAOB in the audit file concern a lack of analytical procedures and updating of information by the PIE auditor.

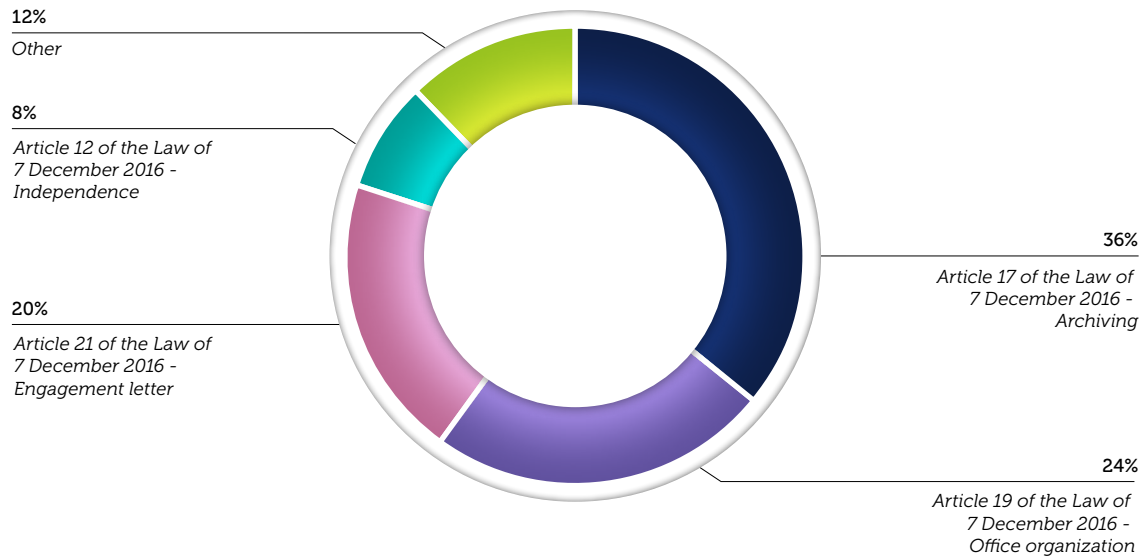
7% The BAOB found, in 7% of the nonconformities concerning the ISAs a nonconformity relating to ISA 500, and more specifically **ISA 500.6**.

The auditor must **design and perform audit procedures** that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence (ISA 500.6). ISA 200.17 adds to this standard: the auditor must **obtain sufficient appropriate audit evidence** to reduce audit risk to an acceptably low level. This puts the auditor in a position to be able to draw reasonable conclusions upon which to base the audit opinion.

ISA 500.6 and ISA 200.17 form the basis for preparing the auditor's audit report.

5.5.4. Nonconformities with respect to the Law of 7 December 2016 in PIE files

Graph 6: Nonconformities with respect to the Law of 7 December 2016 in PIE files



Top 3 nonconformities in order of frequency

1. Lack of timely archiving
2. Insufficient office organization
3. Late preparation of the engagement letter

36% **Article 17 of the Law of 7 December 2016** regulates the **archiving procedures at the level of a firm and the timely preparation of the final audit files**. 36% of nonconformities identified by the BAOB in PIE audit firms with respect to the Law of 7 December 2016 concern this legal requirement.

The BAOB found that some PIE auditors or audit firms exceeded the statutory archiving deadline of 60 days. It emphasizes that each and every audit task is subject to this deadline, including the interoffice reporting for consolidation.

24% Almost a quarter (24%) of nonconformities with respect to the Law of 7 December 2016 concern the **organizational requirements of an audit firm** as laid down in **Article 19 of the Law of 7 December 2016**.

The nonconformities found by the BAOB among the PIE audit firms concerned relate to:

- their quality control system;
- their firm's procedures on providing non-audit services;
- the prior approval for conducting non-audit services by the audit committee;
- aspects of the risk analysis, defined at the level of the firm; and
- their archiving procedures.

20% No fewer than 20% of nonconformities identified by the BAOB in PIE audit firms with respect to the Law of 7 December 2016 concern the **engagement letter**. In the audit files examined, the auditor was found to be conducting audit procedures before preparing the engagement letter. This is in breach of **Article 21 of the Law of 7 December 2016**.

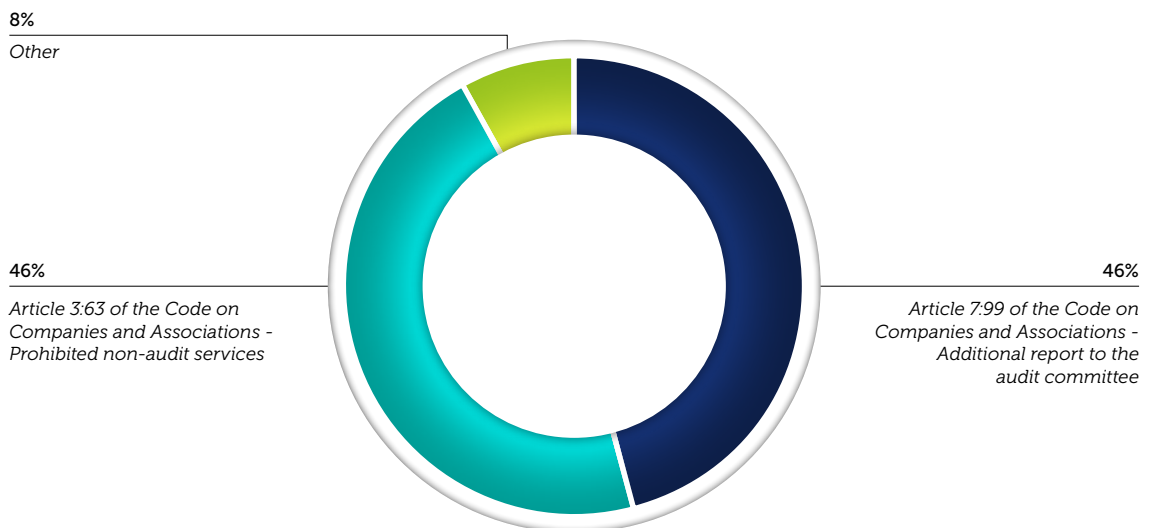
8% Similarly to the findings as regards ISQC 1, the BAOB to a lesser extent (8%) found nonconformities concerning **Article 12 of the Law of 7 December 2016**. This Article defines the full **independence** of the auditor and firm. The nonconformities identified concern formal obligations. The BAOB found no actual breaches as regards the independence of the auditor.

5.5.5. Nonconformities with respect to the Belgian Code on Companies and Associations in PIE files

The Belgian Code on Companies and Associations entered into force on 1 May 2019 for newly incorporated companies, associations and foundations. As from 1 January 2020, the Belgian Code on Companies and Associations also applies to existing companies, associations and foundations²⁹.

In 2020, the BAOB also assessed, in the course of its quality checks, audit files dating from before the change of the legal framework, when the previous Code on Companies was fully in force. For information and to provide a good overview, this section shows the current equivalent of the relevant provisions of the previous Code on Companies.

Graph 7: Nonconformities with respect to the Belgian Companies and Associations Code in PIE files



²⁹ For the transitional provisions that apply, see Articles 38 et seq. of the Law of 23 March 2019 on the entry into force of the Belgian Code on Companies and Associations and laying down miscellaneous provisions.

Top 2 nonconformities in order of frequency

1. **Insufficient or incomplete additional report to the audit committee**
2. **No prior approval or insufficient documentation on the conditions for conducting prohibited non-audit services**

46% Article 7:99, § 7, third paragraph and 7:119, § 7, third paragraph of the Belgian Code on Companies and Associations³⁰ sets out among other things that the statutory auditor³¹ of a PIE as referred to in Article 1:12, 2° of the Belgian Code on Companies and Associations³² **must send an additional report every year to that PIE's audit committee**³³. Almost half (46%) of the nonconformities found by the BAOB at PIE audit firms with respect to the Belgian Companies and Associations Code concern this additional report.

Apart from regular dialogue during the statutory audit, it is important that the statutory auditor provide an additional and detailed report on the results of the statutory audit to the audit committee. By introducing this requirement, the legislature reinforces the communication between the statutory auditor and the audit committee. The statutory audits thereby acquire more value for the audited entity.

The additional report is to be made in writing and explain the results of the statutory audit to the audit committee. The content of the additional report is set out in Article 11 of Regulation (EU) No 537/2014.

The BAOB emphasizes the importance of the **completeness** of the additional report. The report must include all the items from Article 11 of Regulation (EU) No 537/2014, where necessary indicating 'not applicable'. Auditors must, in any case, state the valuation methods used and assess the potential effect of changes to these methods.

The additional report must be a **separate document and named as such**. Information previously shared with the audit committee by the statutory auditor does not replace this additional report. Statutory auditors can add this as an annex with the additional report clearly referring to the annexed document. In that case, the annex limits itself to the relevant parts of the previous information shared to avoid negatively affecting the readability of the additional report.

The BAOB also found nonconformities in the audit files examined as regards the **signing and dating** of the additional report. It emphasizes that it must be **sent to the audit committee** at the latest on the date on which the audit report must be filed.

The additional report must be a separate document and named as such.

³⁰ Articles 7:99 and 7:119 of the Belgian Code on Companies and Associations apply to limited companies with a one-tier board and to those with a two-tier board respectively.

³¹ The term "statutory auditor" is to be understood, in this section, as "the statutory auditor or, where applicable, the auditor responsible for auditing the consolidated annual accounts".

³² The PIEs referred to in Article 1:12 of the Belgian Code on Companies and Associations are those companies whose securities, as referred to in Article 2, 31°, b) and c) of the Law of 2 August 2002 on the supervision of the financial sector and on financial services, are admitted to trading on a regulated market as referred to in Article 3, 7° of the Law of 21 November on the market infrastructures for financial instruments and transposing Directive 2014/65/EU.

³³ If the board of directors or the supervisory board as a whole carries out the tasks assigned to the audit committee, as is allowable at companies that meet the criteria laid down in Articles 7:99, § 3 and 7:119, § 3 of the Belgian Code on Companies and Associations, the additional report is to be submitted to the board of directors or the supervisory board. The term "audit committee" in this section is thus to be understood as "the audit committee or the board of directors, where the board of directors as a whole carries out the tasks assigned to the audit committee, or the supervisory board where the supervisory board as a whole carries out the tasks assigned to the audit committee".

46% Article 3:63 of the **Belgian Companies and Associations Code** sets out the **non-audit services that are prohibited**. These services may not be provided to the audited entity by the auditor or by a member of the auditor's network. The legislature sets out some exceptions provided that a number of conditions are met. 46% of the nonconformities found by the BAOB at PIE audit firms as regards the Belgian Companies and Associations Code concerned these exceptions.

Statutory auditors **may provide certain prohibited non-audit services** on the condition that all the following requirements are met³⁴:

- providing the service must not have a direct effect on, or be of material importance to the audited annual accounts;
- the additional report to the audit committee must thoroughly document and explain the effect on the audited annual accounts; and
- the statutory auditor meets the general principles of independence.

The statutory auditor of a PIE may provide permitted non-audit services only if the audit committee has given its approval for this.

The BAOB identified on a number of occasions that the audit files concerned of PIE auditors did not contain **sufficient documentation to comply with these conditions**.

Just because a service does not fall under the prohibited non-audit services, this does not automatically mean that the statutory auditor of a PIE may provide it. The statutory auditor of a PIE **may provide permitted non-audit services only if the audit committee has given its approval for this**³⁵. The BAOB interprets this provision strictly and expects prior approval by the audit committee. It also finds that the delegation of decision-making powers regarding the provision of non-audit services to people or committees other than the audit committee is not provided for by the law.

5.5.6. Nonconformities with respect to the Law of 18 September 2017 in PIE files

The Law of 18 September 2017 lays down several requirements for audit firms to prevent, pinpoint and block transactions linked to money laundering and terrorist financing (ML/TF).

The Law of 18 September 2017 entered into force on 16 October 2017³⁶ and replaces the Law of 11 January 1993³⁷.

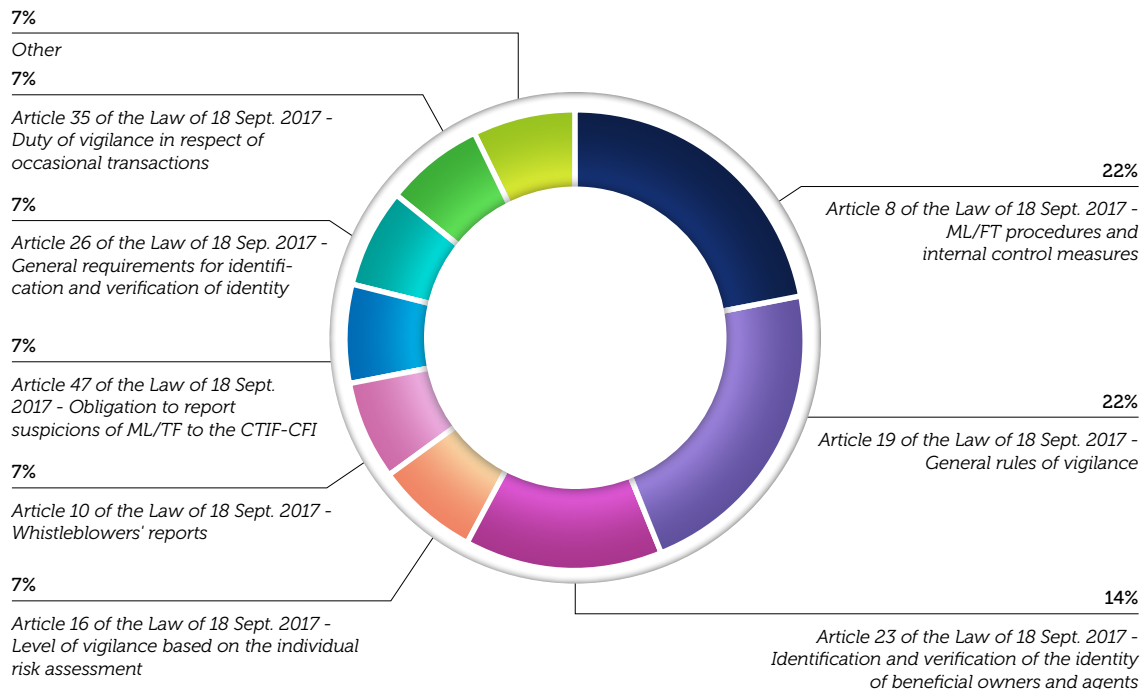
³⁴ Article 3:63, § 4, of the Belgian Code on Companies and Associations.

³⁵ Article 3:63, § 5, of the Belgian Code on Companies and Associations.

³⁶ The Law was amended by the Law of 20 July 2020; see also the Constitutional Court judgment of 24 September 2020.

³⁷ Law of 11 January 1993 on preventing the use of the financial system for purposes of money laundering and terrorist financing.

Graph 8: Nonconformities with respect to the Law of 18 September 2017 in PIE files



Top 3 nonconformities in order of frequency

1. **Insufficient or late performance of the ML/TF procedures**
2. **Late or lack of identification and verification of the identity of clients' beneficial owners and agents**
3. **Lack of detailed analysis in the case of reports of ML/TF suspicions to the CTIF-CFI**

22% **Article 8 of the Law of 18 September 2017** states that audit firms must **develop and implement effective ML/TF policies, procedures and internal control measures** that are efficient and commensurate with their nature and size. This Article forms the basis for adequate application of the Law of 18 September 2017.

Almost a quarter (22%) of nonconformities identified by the BAOB in PIE audit firms as regards the Law of 18 September 2017 concern this Article. The nonconformities identified relate to thoroughly conducting the ML/TF procedures as well as their timeliness within the audit files and in client relations.

22% Another major stumbling block (22%) seems to be **Article 19 of the Law of 18 September 2017**. This Article defines the **general ML/TF due diligence measures** that audit firms take **as regards their clients**, and that consist, inter alia, of:

- **Identifying and verifying the identity of clients' beneficial owners** as referred to in Article 23 of the Law of 18 September 2017 (14% of nonconformities). The general requirements for identification and verification of identity are set out in Article 26 of the Law of 18 September 2017 (7% of nonconformities);

- **Due diligence obligations as regards occasional transactions** as set out in Article 35 of the Law of 18 September 2017. The BAOB identified infringements in 7% of the nonconformities as regards the Law of 18 September 2017 in PIE files. The diligence of the auditor as regards occasional transactions can lead to the identification of atypical transactions.
- The **obligation of the AMLCO to report ML/TF suspicions to the CTIF-CFI** ³⁸ as set out in Article 47 of the Law of 18 September 2017. It is up to the audit firm to make the necessary report as soon as an ML/TF offence is known, suspected or there are reasonable grounds for suspicion. An important caveat here is that it is not up to the auditor to prove or qualify the ML/TF offence. The BAOB places a great deal of importance on the thoroughness and documentation of this analysis which, along with the assumptions included, forms an indication of the expertise of the AMLCO. It identified infringements in 7% of the nonconformities as regards the Law of 18 September 2017.
- Aligning the **level of diligence to the individual risk assessment, taking into account variables and factors of the general risk assessment** as referred to in Article 16 of the Law of 18 September 2017. In 7% of the nonconformities identified, the BAOB found that PIE auditors did not sufficiently take into account the variables of the general risk assessment and/or did not sufficiently document this.

7%

Lastly, 7% of the nonconformities identified concerned **Article 10 of the Law of 18 September 2017**. The PIE audit firms concerned do not have a **specific, independent and anonymous channel for reporting infringements** of the Law of 18 September 2017.

³⁸ The AMLCO is the person as referred to in Article 9, § 2 of the Law of 18 September 2017 and is, inter alia, charged with ensuring the implementation of the ML/TF policies, procedures and internal control measures, ensuring the analysis of atypical transactions and preparing the relevant written reports in order to, if necessary, provide appropriate follow-up, and with reporting suspicions and additional information to the CTIF-CFI.

5.6. Quality checks of non-PIE auditors and audit firms

5.6.1. Types of nonconformities identified in non-PIE files

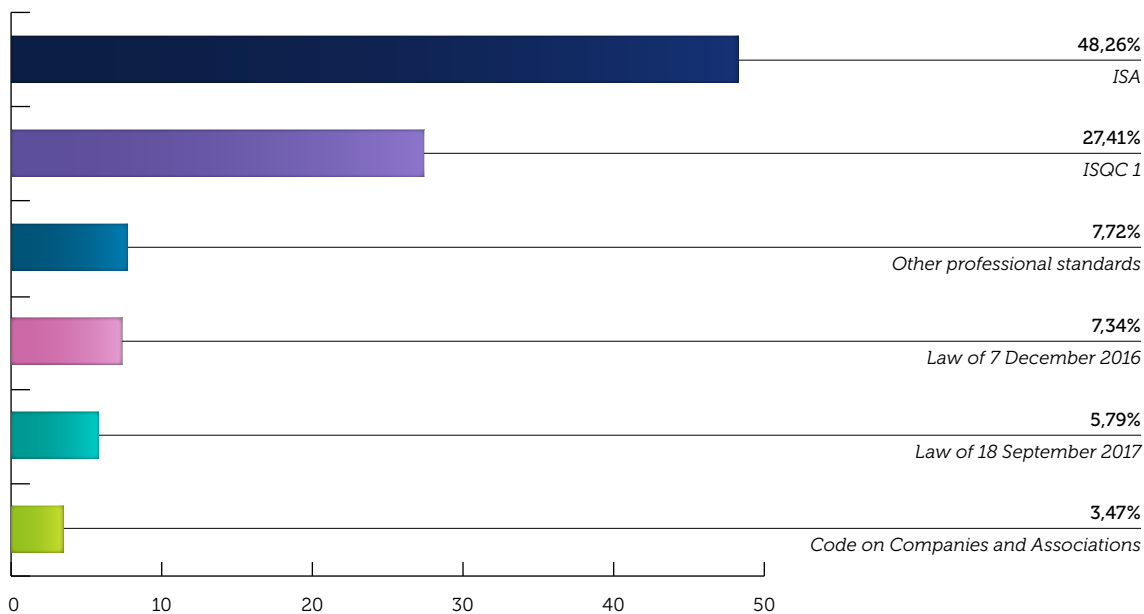
Quality checks conducted among auditors that do not audit any PIEs concern:

- the analysis of the organization of the internal quality control system; and
- the application of these procedures and the normative and legislative framework in individual audit files.

The inspection of the structure of the internal quality control system of an audit firm relates to the provisions of ISQC 1, the Law of 7 December 2016 and the ML/TF Law of 18 September 2017.

The reference framework for inspecting audit tasks consists of the Law of 7 December 2016, the Law of 18 September 2017, the ISAs, the Standard (revised in 2018) on the application in Belgium of the ISAs, the Belgian Code on Companies and Associations as well as the standards that apply to the other audit tasks exercised by virtue of the Law (contribution in kind, quasi-contribution, proposal to dissolve, etc.).

Graph 9: Types of nonconformities identified in non-PIE files



In 2020, the BAOB imposed 259 measures as part of quality checks conducted among auditors that do not audit any PIEs.

Regretfully, the BAOB found that several auditors had not filled in their regular anti-money laundering and terrorist financing risk evaluation questionnaire in good faith, and had to severely sanction them.

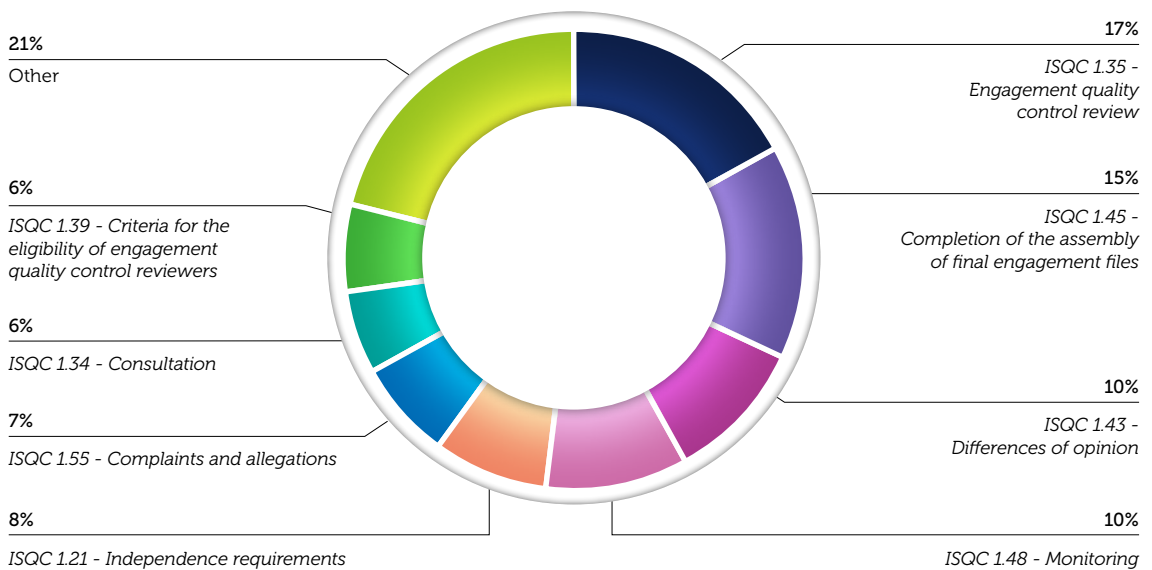
Almost half of the nonconformities identified concern the ISAs. In the BAOB’s audit guides, the percentage of questions asked with an ISA as the legal basis is the highest.

Like last year, the nonconformities as regards the anti-money laundering legislation represented less than 10% of the nonconformities found in non-PIE files.

Regretfully, the BAOB found that several auditors had not filled in their regular anti-money laundering and terrorist financing risk evaluation questionnaire in good faith, and had to severely sanction them. The inspectors found that certain responses given in the questionnaire by the auditors concerned was not in line with the reality of the organization of their firm or their audit files.

5.6.2. Nonconformities with respect to ISQC 1 in non-PIE files

Graph 10: Nonconformities with respect to ISQC 1 in non-PIE files



Top 3 nonconformities in order of frequency

1. No testing of criteria for the engagement quality control review
2. Late completion of the assembly of final audit files
3. Insufficient procedures for monitoring and differences of opinion

An audit firm's internal quality control system must include policies and procedures that cover each of the following domains:

- the responsibilities of the management team as regards quality within the firm;
- the pertinent ethical rules;
- accepting and maintaining client relations and specific tasks;
- human resources;
- performance of tasks;
- monitoring.

The graph above shows that the most common nonconformities in the non-PIE files concern the internal procedures relating to the pertinent ethical rules (ISQC 1.21), fulfilling engagement (ISQC 1.34, 35, 39, 43 and 45) and monitoring (ISQC 1.48 and 55).

17% The percentage of nonconformities relating to the **engagement quality control review** (or EQCR) (**ISQC 1.35**) remained stable compared to the previous year (17%). The aim of the engagement quality control review is to provide an objective evaluation of the important findings of the team assigned to the task and the conclusions that arise therefrom for the preparation of the report.

In numerous non-PIE files, the BAOB identified that the criteria for the obligation to conduct an engagement quality control review had been defined by the firm. However, the verification of the applicability of one or more of these criteria at the time of acceptance (or renewal) of a task or during its execution had not been documented, as a result of which the firm concerned could not demonstrate the implementation of its internal procedure.

The BAOB has set out its expectations as to the implementation of an EQCR in an opinion published on its website³⁹. Whether or not a task should be subjected to an engagement quality control review, in the light of the criteria established by the firm, must be documented. This documentation must be appropriate in order to provide proof that the firm's internal procedures are functional. The documentation must also indicate when the review was conducted and when it was completed.

15% Like last year, the BAOB identified a significant number (15%) of nonconformities relating to the **timely assembly of final engagement files (ISQC 1.45)**. ISQC 1.45 requires that the completion of the assembly of final engagement files be on a timely basis after the engagement reports have been finalized. Read in conjunction with Article 17, § 3 of the Law of 7 December 2016, this provision lays down that the engagement file be completed at the latest 60 days after the date of signature of the report for the engagement concerned. In a certain number of files, the BAOB found that this principle had indeed been included in the firm's internal procedures but that no instructions had been given as to its implementation in engagement files.

The BAOB insists on the importance of documenting when the completion of the assembly of the files has taken place. Even though it is noted that firms are increasingly saving audit files in electronic format, no obligation exists in this respect. The BAOB deems it useful to issue a reminder that the way in which

³⁹ Opinion of the BAOB on the engagement quality control review, 13 December 2018, https://www.fsma.be/sites/default/files/public/content/CTRCSR/opinions/20181213_eqcr_nl.pdf.

an individual audit file is established, whether in paper or electronic format, does not affect the auditor's obligation to complete the audit file on a timely basis⁴⁰.

The BAOB considers that a paper file fulfils the legal obligations as long as it meets the following criteria:

- the file's structure is appropriate and contains a detailed inventory of the different stages of the audit and/or the various entries in the financial statements;
- the parts of the file are signed and dated separately by the auditor assigned to the task;
- the file contains a sworn statement from the auditor confirming the date on which the file was completed⁴¹.

10% The BAOB has also identified a considerable amount (10%) of nonconformities relating to **ISQC 1.43**. This standard relates to **differences of opinion** that may arise within the team assigned to the task with the persons consulted and, where applicable, between the partner who is responsible for the task and the person responsible for the quality control of the task (reviewer). Within certain firms, no procedure was put in place to handle and resolve differences of opinion. In other firms, it was only the resolution of differences of opinion within the audit team that had been covered in the internal procedures.

Effective procedures encourage differences of opinion to be identified at an early stage. The procedures must contain clear recommendations as to the following steps to be taken and require documentation on the resolution of differences of opinion and of the application of the conclusions arising therefrom. The procedures must also require that the date of the report concerned must not be previous to the date on which the difference of opinion was resolved.

10% The percentage of nonconformities relating to the **monitoring process (ISQC 1.48)** halved in comparison to the previous year (10%). The aim of monitoring is to provide an evaluation of (i) compliance with the applicable professional standards and the requirements under laws, regulations or standards, (ii) the appropriate design (or not) of a quality control system and its effective implementation and (iii) the proper application (or not) of the firm's quality control policies and procedures in such a way that the reports issued are appropriate to the circumstances.

The BAOB expects auditors to have a detailed monitoring plan that includes the procedures to be evaluated and the engagement partners to be audited.

Monitoring is an essential aspect of firms' quality control system. After all, the correct application of the internal procedures defined can only be ensured by verifying the same.

It is clear that this process, which is being increasingly better implemented within the profession, is not yet in operation within all audit firms, even though ISQC 1 entered into force in August 2014.

⁴⁰ For any explanations concerning ISA 230.14, see "Nonconformities relating to ISAs in non-PIE files".

⁴¹ Belgian Audit Oversight Board, Annual Report 2017, pp. 59 and 60.

The BAOB has set out its expectations as to the specific implementation of the monitoring process in an opinion published on its website⁴². In particular, the BAOB expects auditors to have a detailed monitoring plan that includes the procedures to be evaluated and the engagement partners to be audited. The monitoring plan must clearly indicate when a cycle starts and finishes in order to be able to verify whether the internal procedures have been the subject of review and whether all the engagement partners have been subjected to an inspection over the course of the monitoring cycle concerned.

A monitoring process, in order to be effective, entails strict monitoring on a timely basis of the non-conformities identified at the time of inspecting the firm's internal procedures or of the audit tasks of the engagement partners. In this respect, it is important to properly distinguish systemic or reiterated nonconformities from others. These may require a quick corrective measure and, where applicable, an amendment to internal procedures with a view to providing reasonable assurance that the firm complies with the applicable legal and regulatory framework and that the reports issued by the engagement partners are appropriate to the circumstances.

6% Some nonconformities have been identified with regard to **ISQC 1.39 (6%) on criteria for the eligibility of engagement quality control reviewers**. The BAOB stresses the importance of ensuring the independence of these reviewers. The designation of the previous statutory auditor as a reviewer entails the risk of compromising his or her objectivity, in particular because the audited figures concern his or her own work. Where possible, the firm will therefore preferably designate another reviewer. It is in fact good practice to provide in the firm's procedures for the rotation of reviewers. In accordance with the principle of proportionality, the BAOB takes into account the scale of the firm concerned during its evaluation of the procedures on the designation of reviewers.

7% The **process for handling complaints and allegations (ISQC 1.55)** is linked to the monitoring process. Complaints and allegations may come from within the firm or outside it. They may come from the firm's professional staff, clients or other third parties. The standard requires the firm to establish policies and procedures designed to provide it with reasonable assurance that it deals appropriately with complaints and allegations. The firm must keep records of all complaints and allegations as well as their responses.

The BAOB found that 7% of nonconformities identified in non-PIE files concern the handling of complaints and allegations within firms. In particular, the absence of clearly defined channels for firm personnel to raise any concerns in a manner that enables them to come forward without fear of reprisals. Within small firms with a limited number of partners and in the case of sole practitioners, it may not be possible for the partners who supervise the investigations to not be involved in the task. They may in this case use the services of a qualified external person or another firm to conduct an investigation into complaints and allegations. Within small firms with a limited number of partners and in the case of sole practitioners, it may not be possible for the partners who supervise the investigations to not be involved in the task.

8% Audit firms are required to establish procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements (including network firm personnel) maintain their **independence (ISQC 1.21)**. In 8% of the cases identified as nonconformities, this appeared not to be the case.

⁴² The BAOB's Opinion on monitoring, dated 13 December 2018: https://www.fsma.be/sites/default/files/public/content/CTRCSR/opinions/20181213_monitoring_nl.pdf.

The internal procedures must in particular allow the firm to identify and evaluate circumstances and relationships that create threats to independence, and to take appropriate action to eliminate those threats or reduce them to an acceptable level.

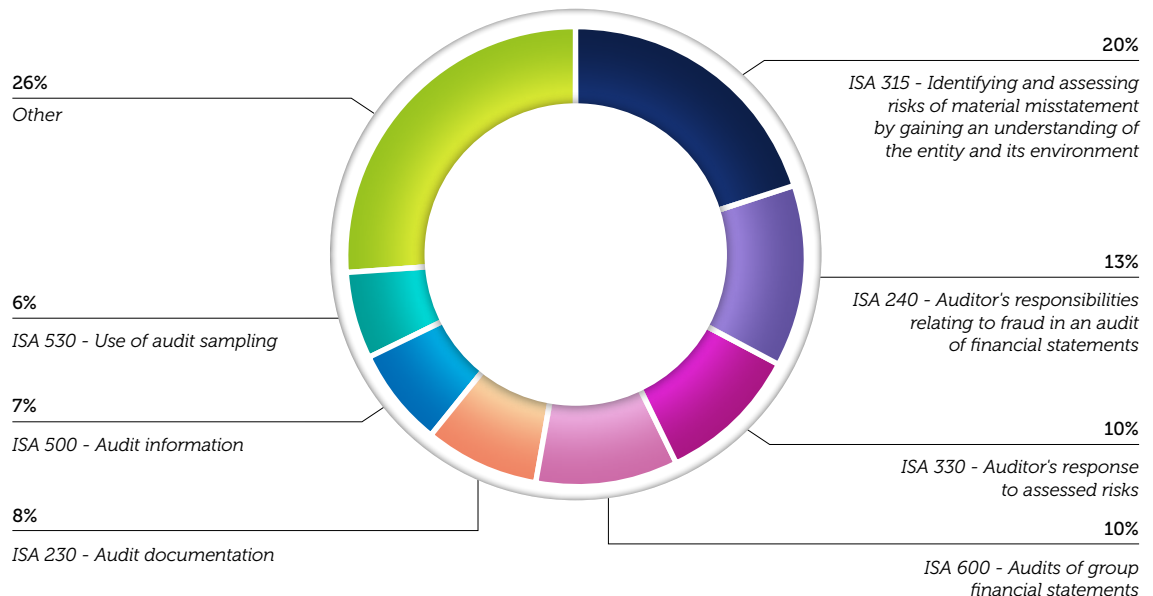
Most firms ask their professional personnel to sign a declaration of independence on an annual basis. Where a firm submits a declaration of independence for its firm’s personnel to sign, it must ensure that this declaration specifies the exact period covered as well as the clients concerned. The BAOB identified in several non-PIE files that the firm omitted to specify this.

6% The nonconformities relating to **ISQC 1.34** represent 6% of the nonconformities identified in the non-PIE files. This standard requires **consultations** to take place inside or outside the firm as regards difficult or contentious matters. The consultation helps promote quality and improves the use of professional judgement. Appropriate recognition of the need for consultation within the firm’s procedures helps develop a culture in which consultation is recognized as a strength.

The nature, extent and conclusions that come out of the consultations that take place must be documented both by the person who consults and the person who is consulted. Sufficiently exhaustive and detailed documentation is crucial. It helps understand the subject on which the consultation has been requested as well as the results of the consultation, including any decision made, the grounds for these decisions and the way in which they have been applied. Equally, if there is a lack of documentation, the firm concerned will not be able to demonstrate the proper functioning of their internal procedures.

5.6.3. Nonconformities relating to ISAs in non-PIE files

Graph 11: Nonconformities relating to ISAs in non-PIE files



Top 3 nonconformities in order of frequency

1. **Insufficient understanding of the entity and its environment, including its internal control**
2. **Insufficient checks of the entries in the general ledger**
3. **Insufficient documentation on how estimated risks are responded to**

20% In non-PIE files, the percentage of nonconformities relating to **ISA 315 on identifying and assessing the risks of material misstatement through understanding the entity and its environment** remains significant (20%). This standard is key to audits and to the BAOB's concerns. There are a significant number of questions relating to the efforts required under ISA 315 in the BAOB's audit guides.

Auditors are required to obtain an understanding of the supervised entity and its environment (ISA 315.11). Identifying risks (of material misstatements) forms the basis of an audit and is the result of the understanding of the entity and its environment, including its internal control. This understanding can be obtained from external sources (internet, specialist journals, government bodies) and internal sources (budgets, accounting methods used, objectives and strategies, key performance indicators). Gaining an understanding of the entity must become a continuing process of collecting, updating and analysing information; it is not a one-off task that can be done at the beginning of the audit. The auditor must continue to acquire knowledge about the entity throughout the audit and be vigilant to risk factors that he/she had not previously identified.

Identifying risks of material misstatements forms the basis of an audit.

In addition, auditors must gain an understanding of the information system, including the related business processes, relevant to financial reporting by the entity (ISA 315.18). To this end, the auditor must identify the sources of information used, the way in which the information is captured and processed as well as the way the information is used and produced. If the audited entity does not have a detailed description of the accounting procedures, or a sophisticated accounting system, or written procedures, the auditor will gain a better understanding of the entity's information system by way of requests for information and by observation, rather than by examining documents.

The BAOB found that the information referred to in ISA 315.11 and 315.18 was not always documented, or insufficiently so, in the audit files. In accordance with the principle of proportionality, the BAOB accepts more concise documentation in the audit file when the audited entity's environment or information system is not sophisticated. This documentation must, however, be sufficient to allow the inspector and the BAOB to ascertain that the auditor has acquired sufficient understanding of the audited entity and its environment, as well as the information system and related business processed relevant to financial reporting.

13% As in the previous year, the BAOB identified a significant number (13%) of nonconformities relating to the **ISA 240 on the auditor’s responsibilities relating to fraud in an audit of financial statements**. The most frequently observed nonconformity is still that relating to ISA 240.32 (a). This standard requires the auditor to design and perform audit procedures to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. During the inspections, the auditors frequently declare that they proceed with this examination at the time of reviewing the various areas of annual accounts. However, the BAOB has found that the documentation in this respect is often insufficient.

The problem with documentation is not trivial considering it concerns audit procedures that aim to respond to the risk that the management override internal controls of the audited entity. Although the level of risk of management bypassing controls varies from one entity to the next, it nevertheless remains present in all entities. Given the unpredictable nature of the way in which such override can be produced, a risk of material misstatement from fraud still remains, and is therefore a major risk⁴³. The obligations of auditors as regards fraud are key to the audit and the BAOB’s expectations.

Whatever the auditor’s assessment of the risk of management overriding controls, he or she must, in particular:

- enquire among the people involved in the process of preparing financial information as to the existence of inappropriate or unusual circumstances while registering accounting entries or other adjustments;
- select accounting entries and other adjustments registered at the end of the period; and
- consider the need to test accounting entries and other adjustments registered throughout the period.

10% The BAOB has identified a considerable amount (10%) of nonconformities relating to **ISA 330 relating to the auditor’s response to assessed risks**. In particular, nonconformities relating to ISA 330.28 that stipulates the specific efforts required for documenting the audit. This standard requires the statutory auditor to include in the audit documentation: (i) the overall responses to address the assessed risks of material misstatement at the financial statement level, and the nature, timing and extent of the further audit procedures performed; (ii) the linkage of those procedures with the assessed risks at the assertion level; and (iii) the results of the audit procedures, including the conclusions where these are not otherwise clear.

The audit documentation must be able to stand on its own. The standard audit documentation of the auditor’s response to assessed risks must in particular include the following: an audit plan, the nature and extent of consultation with others, significance and nature of the evidence obtained to the assertion being tested, a clear explanation of the results obtained from the test, and how any exceptions or deviations were followed up, actions taken as a result of auditing procedures and changes, if any, required to the overall audit strategy⁴⁴.

⁴³ ISA 315.4 (e) defines a significant risk as ‘An identified and assessed risk of material misstatement that, in the auditor’s judgment, requires special audit consideration’.

⁴⁴ For further details, see the *Guide to using ISA in the audits of small- and medium sized entities*, volume 1 (fourth edition), p. 190-191.

10% Ten (10) % of nonconformities concerned **ISA 600 on audits of group financial statements**. If the auditor acts as the capacity of the auditor of a group's financial statements, the BAOB verifies that he/she communicates clearly with the component auditors⁴⁵ as to the scope and timetable of their work on the financial information relating to the components and their conclusions. It also verifies whether the auditor has gathered sufficient appropriate audit evidence on the financial information of components and on the consolidation process to express an opinion based on which the group's financial statements are presented, in all their significant aspects, in accordance with the applicable accounting rules.

8% The BAOB also identified several nonconformities relating to **ISA 230 concerning audit documentation** (8%). Nonconformities relating to ISA 230.14 concerning the assembling of the final audit file, were the most frequently identified. The engagement file must be completed at the latest 60 days after the date of signature of the report (Article 17, § 3 of the Law of 7 December 2016, read in conjunction with ISA 230.14). In the files concerned, nothing indicated that the audit file had been amended after these sixty days, but the auditor had not materialized the closure of his or her paper or electronic file by the statutory deadline. This finding in the audited audit files is a logical consequence of the frequent finding at an organizational level of the audited firms concerning ISQC 1.45⁴⁶. If no procedures have been established by the firm as regards materializing the closure of the audit file, engagement partners will not be able to fulfil this requirement.

7% Seven (7) % of nonconformities found concern **ISA 500 on audit evidence** that the auditor must collect to be able to draw reasonable conclusions upon which to base his or her audit opinion. The auditor must design and perform audit procedures to obtain sufficient appropriate audit evidence. In several cases, the BAOB was led to the finding that the audit procedures put in place to cover a major risk⁴⁷ identified by the auditor had not enabled the collection of sufficient appropriate audit evidence (ISA 500.6). Given that this nonconformity concerns a major audit risk, the BAOB cannot rule out that the financial statements contain material misstatements and that the audit opinion is not appropriate. Given the potential impact on the audit opinion, this type of nonconformity is generally sanctioned by a warning, or a more severe measure if it appears in conjunction with a significant number of other major nonconformities.

6% The BAOB has once again identified several nonconformities (6%) relating to **ISA 530 concerning audit sampling**. The audit documentation must show that the auditor had taken into account the purpose of the audit procedure and the characteristics of the population from which the sample had been drawn (ISA 530.6). The auditor must be prudent to make a good choice of the population concerned by the assertion to be tested, and clearly document the purpose of the sampling in his or her audit file.

⁴⁵ ISA 600.9 (a) defines a component as 'an entity or business activity for which group or component management prepares financial information that should be included in the group financial statements'.

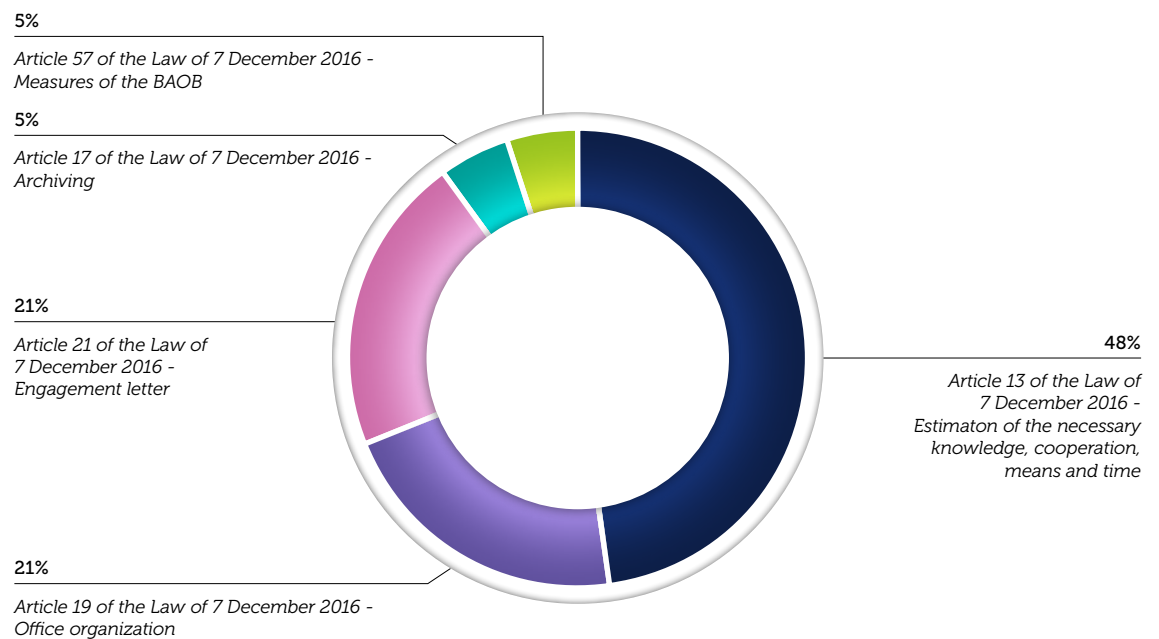
⁴⁶ ISQC 1.45 requires that the completion of the assembly of final engagement files be on a timely basis after the engagement reports have been finalized (see page 32 of this report).

⁴⁷ ISA 315.4 (e) defines a significant risk as 'An identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration'.

In addition, the audit documentation must show that the auditor had determined a sample size sufficient to reduce sampling risk to an acceptably low level (ISA 530.7). In a sample size of less than 100% of the population, there is always a risk that a misstatement not be identified and that it may exceed the threshold of what is considered a 'tolerable' misstatement. This risk can be reduced by increasing the sample size. The auditor must make sure to prove in his or her audit file that this risk has been reduced to a level sufficiently low to be acceptable.

5.6.4. Nonconformities relating to the Law of 7 December 2016 in non-PIE files

Graph 12: Nonconformities relating to the Law of 7 December 2016 in non-PIE files



Top 3 nonconformities in order of frequency

1. No estimation of the necessary knowledge, cooperation, means and time before accepting the engagement
2. Insufficient procedures to safeguard the continuity and regularity of audit tasks
3. Late preparation of the engagement letter

48% The graph above shows that almost half (48%) of nonconformities relating to the Law of 7 December 2016 are with regard to **Article 13 of the Law of 7 December 2016**. The non-conformities found concern in particular the **obligations of the auditor with regard to accepting an engagement** (whether it is for an audit task or otherwise). Before accepting an engagement, the auditor must verify and document in writing whether he or she has the resources and time required for the successful completion of this task⁴⁸. The BAOB expects auditors to budget their time realistically to allow them to fulfil the task concerned in compliance with the applicable regulatory and legislative framework.

Before accepting a task, the auditor must also verify with the entity concerned whether another auditor is engaged or has been engaged over the past twelve months for an audit of the same entity. If so, the auditor may only conduct work on-site after having informed the other auditor, preferably in writing, of his or her intervention⁴⁹. Although this obligation is generally properly included in the firms' acceptable procedures for ad-hoc audits, the BAOB has found that it is often forgotten when it comes to accepting statutory audits of accounts.

21% Like last year, the BAOB has highlighted nonconformities (21%) regarding **Article 19 of the Law of 7 December 2016**. This Article concerns the organizational requirements that each auditor must at the very least adhere to when conducting an audit. On several occasions, the BAOB has been led to the finding that sole practitioners had not taken any **measure with a view to guaranteeing the continuity and regularity of their audit activity**⁵⁰. The BAOB has recommended that they quickly enter into an agreement with another auditor so that this auditor may intervene in the case of systematic unavailability of the sole practitioner.

21% Finally, the BAOB highlighted nonconformities (21%) as regards **Article 21 of the Law of 7 December 2016**. This provision requires the auditor and his or her client to prepare a letter of engagement prior to conducting any task. Apart from describing the task, the engagement letter must specify, in a balanced way, the reciprocal rights and obligations of the client and auditor. Several nonconformities have been identified in this respect: absence of description of the rights and obligations of the client and auditor, absence of general terms and conditions (including the rules that apply with regard to protection of personal data) or the absence of the client's signature.

⁴⁸ Art. 13, § 1, first paragraph of the Law of 7 August 2016.

⁴⁹ Art. 13, § 4, of the Law of 7 August 2016.

⁵⁰ Art. 19, § 1, 8° of the Law of 7 December 2016.

CTR
CSR





6. SUPERVISION

- 6.1. Complaints handling
- 6.2. Continuing professional education
- 6.3. Role of the statutory auditor in the case of client bankruptcy
- 6.4. Public register

6.1. Complaints handling

The BAOB investigates the complaints it receives unless they are clearly inadmissible. 5 of the 27 complaints received in 2020 were inadmissible.

Disputes as to the fees charged are not within the scope of the BAOB's competence. The BAOB equally does not intervene in disputes on the content of a court expert report drawn up by an auditor. The BAOB was also unable to intervene in 2 complaints filed in view of the dismissal of the auditor.

The BAOB investigated, following **22 admissible complaints**, whether the auditor acted with due regard to the applicable framework of laws and standards.

It investigated, inter alia, auditors who hindered the transfer of the bookkeeping files. Although the subject of the complaint was in the first place the professional activities of the auditor in the capacity of chartered accountant⁵¹, the BAOB is competent to rule on this complaint. A person who carries the title of auditor is after all subject to the Law of 7 December 2016 and has to act fully independently as regards the principles of professional ethics.

A person who carries the title of auditor is after all subject to the Law of 7 December 2016 and has to act fully independently as regards the principles of professional ethics.

In this case, the BAOB investigated whether the auditor had committed deeds incompatible with either the integrity, honesty or discretion, or the independence of his or her function. Professional ethics do not, after all, only apply to audit tasks. They form part of the role of an auditor, irrespective of the task carried out.

The BAOB also examined the audit procedures of an auditor against whom a complaint was made for allegedly having tolerated irregularities within the audited entity. It related to unlawful capital movements and issue premiums, and an overvaluation of financial fixed assets. From the BAOB's investigation, it turned out that the financial fixed assets had been correctly presented in the annual accounts of the audited entity. The auditor had fulfilled the task correctly.

Five (5) complaints received led to the Secretary General launching an investigation as referred to in Article 56, § 1 of the Law of 7 December 2016. The Secretary General found strong indications in each of the 5 complaints files of the existence of a practice liable to give rise to an administrative measure or an administrative fine.

⁵¹ An auditor may, with due regard to the Law of 17 March 2019 on the profession of accountant and tax advisor, exercise the professional activities of a certified chartered accountant. Of course, the auditor must guarantee the independent performance of his or her tasks at all times.

In this context, the BAOB pays particular attention to nonconformities that could have an impact on users' opinion of financial information, by virtue of non-compliance with the ethical rules and repeated nonconformities. This means that the service of the auditor in which he or she acts as a chartered accountant and statutory auditor is subjected to an investigation by the Secretary General.

The BAOB pays particular attention to nonconformities that could have an impact on users' opinion of financial information, by virtue of non-compliance with the ethical rules and repeated nonconformities.

The Secretary General's investigation entails examining whether the facts identified could give rise to the imposition of an administrative measure or fine, or may constitute a criminal offence. It is up to the BAOB's Committee to make a final decision on how it wishes to follow up on the Secretary General's report.

The Secretary General's investigation ensuing from these 5 complaints is not yet complete.

The facts ascertained by the BAOB ensuing from 11 admissible complaints are currently the subject of a preparatory analysis in which the BAOB has not yet made a final decision.

Table 3: The BAOB's decision on 22 admissible complaints

BAOB decision	Number of complaints
The BAOB ruled that the auditor in question did not commit an infringement	6
An investigation showed strong indications that led to the launch of an investigation as referred to in Article 56, § 1, of the Law of 7 December 2016	5
The investigations relating to the complaints received are not yet currently complete	11
TOTAL ADMISSIBLE COMPLAINTS SUBJECT TO INVESTIGATION	22

6.2. Continuing professional education

An auditor must follow continuing professional education on all relevant aspects of the profession. In this way, the legislature aims to ensure that auditors possess the requisite theoretical knowledge and sufficient professional expertise to properly conduct their tasks with due regard to professional ethics.

The legislature delegates the organization of continuing professional education to the IBR/IRE⁵². The BAOB bears the ultimate responsibility for the supervision and performance of this delegated task.

6.2.1. Training requirements

The IBR/IRE standard of 30 August 2007 on continuing professional education states what is required from auditors in terms of training. They are listed in the table below and form the reference framework for supervision for the period between 2017-2019⁵³.

Type of activity	2017	2018	2019	2017-2019
1. Seminars and study days organized by the IBR/IRE or ICCI	8 (1)	8 (1)	8 (1)	24 (1)
2. Seminars and study days organized by an audit firm (after the IBR/IRE's approval)				
3. Seminars and study days organized by universities, higher education institutions, associations or training professionals				
4. Course preparation, including the preparation and organization of IBR/IRE activities, conferences and (5) technical publications Participation in conferences Participation in technical committees				
5. Individual training through reading and personal study Individual training through distance learning				
Minimum hours of training of type 1, 2 and 3				84 (2)
Minimum hours of training	20 (3)	20 (3)	20 (3)	120 (4)

(1) A minimum of 8 hours of training per year, based on a three-year period, must be taken with the IBR/IRE⁵⁴. The hours of training are automatically added to the database held by the IBR/IRE based on the registration and participation in the IBR/IRE/ICCI activities (general meeting, info sessions, regional meetings and study days). Only actual participation in one of the IBR/IRE/ICCI training activities mentioned above entitles an auditor to hours of continuing professional education.

(2) Seminars and study days under 1, 2 and 3 must represent a minimum of 84 hours on a three-year basis⁵⁵.

(3) The absolute minimum of hours of continuing professional education per year must be 20 hours⁵⁶.

(4) An average of 120 hours of training must be attained on the basis of a three-year period⁵⁷.

⁵² Article 41, § 1, of the Law of 7 December 2016.

⁵³ The IBR/IRE has since updated this standard: <https://www.ibr-ire.be/fr/reglementation-et-publications/normes-et-recommandations/normes-formation-permanente>. This standard enters into force on the 1st day of the calendar year following the date of publication in the Belgian Official Gazette of the approval by the Minister responsible for the economy, i.e. 1 January 2022.

⁵⁴ Article 5, § 3, 2° of IBR/IRE standard of 30 August 2007 on continuing professional education.

⁵⁵ Article 5, § 3, 1° of IBR/IRE standard of 30 August 2007 on continuing professional education.

⁵⁶ Article 1, § 1 of IBR/IRE standard of 30 August 2007 on continuing professional education.

⁵⁷ Article 1, § 1 of IBR/IRE standard of 30 August 2007 on continuing professional education.

(5) The hours of preparation and organization of IBR/IRE activities (study days, info sessions and regional meetings) and the ICCI activities (seminars), as well as participation in committees and working groups, IBRE/IRE and ICCI committees are automatically registered as soon as the IBR/IRE and ICCI activities have taken place or participation has occurred.

6.2.2. Evaluation campaign 2017-2019

In 2020, the BAOB conducted supervision of the continuing professional education obligations for the years 2017-2019. The evaluation campaign covered all auditors.

Statutory auditors may as a rule enter their hours of training for year N in the IBR/IRE database up to 31 March of year N+1. The evaluation campaign for the years 2017 to 2019 can then start after 31 March 2020.

For the 2017-2019 evaluation campaign, the BAOB's supervision was on:

1. **professional training**, i.e. types 1, 2 and 3 of training, the minimum hours of which should be 84 on a three-year basis. The auditor must be able to present, at the BAOB's request, an attendance certificate for these training sessions.
2. **seminars and study days organized by the IBR/IRE/ICCI** (type 1), the minimum hours of which have to be 8 hours per year, on the basis of a three-year period. These hours of training are registered by the IBR/IRE staff and not by the auditors themselves. They are therefore subjected to supervision at source.

More specifically, during the 2020 supervisory campaign the BAOB looked into whether auditors fulfilled the following obligations for the period 2017-2019:

- an average of 84 professional training hours (types 1, 2 and 3);
- an average of 24 IBR/IRE/ICCI training hours (type 1).

The BAOB identified **101 irregularities** on the subject among auditors. The follow-up of these files is planned for 2021.

6.3. Role of the statutory auditor in the case of client bankruptcy

6.3.1. Thematic inspections

The auditor plays a key role: his or her opinion on the true and fair nature of financial information in a company's annual accounts ensures that accurate information is provided to readers of annual accounts.

The auditor plays an important role: he or she ensures that accurate financial information is provided to the market. This is a key role, because by expressing an opinion on the true and fair nature of financial information contained in a company's annual accounts, the auditor ensures that accurate information is provided to readers of annual accounts. Failing this, the confidence of interested parties in companies falls. This is even more so for companies in difficulty and interested parties who risk losing the amounts they are due, their job or their investment.

In 2019, the BAOB decided to organize thematic spot-checks of statutory auditors' audit procedures in the case of a company declared bankrupt.

During 2020, the BAOB ruled on bankruptcy files. It examined 32 files regarding clients of auditors for which bankruptcy was filed in the two last quarters of 2019 and the first quarter of 2020.

The table below shows the decisions of the BAOB as regards these bankruptcy files.

Table 4: BAOB decision on the bankruptcy files handled in 2020

BAOB decision	Number of bankruptcy files handled in 2020
Cases that passed	12
Cases with recommendations	15
Cases with a warning	1
Obsolete cases ⁵⁸	4
TOTAL	32

⁵⁸ These are bankruptcy files with, for example, an early termination of the statutory auditor's mandate as a result of which the statutory auditor was no longer appointed during the period prior to the bankruptcy.

6.3.2. Good practices

The examination of 32 statutory auditor mandates is summarized⁵⁹ in the following findings on the good practices followed by auditors or audit firms:

- A statutory auditor who **identifies serious and consistent facts in the exercise of his or her task that could jeopardize the continuity of the company's economic activity** must inform the governance body thereof in detail and in writing⁶⁰.
- The statutory auditor must prepare a **nulla bona report** if the company does not hand over its records by the statutory deadline and the statutory auditor is unable to prepare a statutory audit report⁶¹.

6.3.3. Concerns identified

From the examination of 32 statutory auditor mandates, it was found that the statutory auditor too often ignored the following important obligations:

- Where statutory auditors have not signed a statutory auditor's report, they must **archive their audit file within a reasonable period of time after the date of the company's bankruptcy**.

The BAOB notes that the large majority of statutory auditors fail to archive their audit file within a reasonable period of time. The purpose of the statutory archiving obligation⁶², however, is to ensure the audit file does not undergo irregular changes. Even if the bankruptcy compromises the statutory auditor's preparation of an audit report, he/she must file the audit file within a reasonable period of time after the bankruptcy.

The purpose of the statutory archiving obligation is to ensure the audit file does not undergo irregular changes.

- The statutory auditor must **investigate, assess and follow up on the measures** that the statutory anticipates to ensure it can continue as a going concern for a minimum duration of twelve months⁶³.

Where applicable, the statutory auditor may share his or her findings with the President of the Commercial Tribunal if within a month after his or her notification the governance body of the company did not react or if the statutory auditor believes that the measures that the governing body decided to take, cannot ensure that the company can continue as a going concern for a minimum of twelve months⁶⁴.

⁵⁹ This section does not aim to provide an exhaustive representation of the findings of the BAOB but places the emphasis on major trends in order to better explain the BAOB's expectations.

⁶⁰ Article 3:69, § 1, of the Belgian Code on Companies and Associations.

⁶¹ Article 3:74 of the Belgian Code on Companies and Associations. "Statutory auditors prepare a detailed written report based on the annual accounts. For this purpose, the governance body of the company hands over the necessary records, at least one month or, in the case of listed companies, 45 days before the planned date of the general meeting. If the governance body fails to provide these records by the statutory deadline referred to in the first paragraph, the statutory auditors shall prepare a *nulla bona* report for the general meeting and addressed to the governance body, insofar as it is unable to comply with the deadlines prescribed in the present Code for the purpose of providing the statutory audit report".

⁶² Article 17, §§ 1 and 3 of the Law of 7 December 2016, ISA 230.14 and ISQC 1.45.

⁶³ ISA 570.

⁶⁴ Article 3:69 of the Belgian Code on Companies and Associations.

- Statutory auditors must **document** their work as regards the company's continuity in a **clear and structured way** in their audit file⁶⁵.

The BAOB expects statutory auditors to be able to prove the time at which they conducted the audit procedures with supporting documentation from the audit file.

The BAOB published the aforementioned findings on its website⁶⁶.

6.4. Public register

The European legislators ruled that in order to protect third parties, all auditors must be listed in a register that can be accessed by the public. This public register is a database and can be consulted on the website of the IBR/IRE⁶⁷. It contains all the essential details on the auditors such as the first name, surname, address, year of enrolment and registration number⁶⁸.

Auditors' registration in the public register allows them to hold the title of auditor. It also allows them to conduct all audit tasks⁶⁹ by or pursuant to the law⁷⁰.

The public register is an important source of information for all interested third parties to ascertain whether a certain person does in fact hold the title of auditor. For the BAOB, the register and the accuracy of the information it contains is also of great importance. The BAOB after all bases its audit activity on the data in the public register.

The IBR/IRE is tasked with keeping and updating the public register⁷¹. The BAOB bears the ultimate responsibility for the supervision and performance of this legally delegated task⁷².

The accuracy and completeness of the data in the public register is the responsibility of the auditors. They are also obliged to inform the IBR/IRE as quickly as possible of any change in the data included in the public register⁷³. Moreover, auditors are obliged to confirm every year to the IBR/IRE that their data in the public register are complete and up-to-date⁷⁴.

⁶⁵ Article 17 of the Law of 7 December 2016 and ISA 230.

⁶⁶ Audit campaign on bankruptcies filed in the second half of 2019 and the first quarter of 2020, primary findings, summary of good and bad practice, 4 March 2021, https://www.fsma.be/sites/default/files/public/content/CTRCSR/2021-03-04_synthese_controlecampagne_faillissementen_nl.pdf.

⁶⁷ Article 17, § 1 of the Royal Decree of 21 July 2017. The register can be consulted on <https://www.ibr-ire.be/nl/openbaar-register/belgi/bedrijfsrevisoren>.

⁶⁸ Article 12 to 16 of the Royal Decree of 21 July 2017.

⁶⁹ Audit tasks are all tasks, including the task of statutory audit of annual accounts, with the objective of issuing an expert opinion on the truthfulness, fairness and accuracy of a set of annual accounts, an interim financial statement, a valuation or other economic and financial information, supplied by a company or institution. The term also encompasses analysis and clarification of economic and financial information for members of the works council.

⁷⁰ Article 11, § 1, first paragraph of the Law of 7 December 2016.

⁷¹ Article 10, § 1, first paragraph of the Law of 7 December 2016.

⁷² Article 41, § 1, second paragraph of the Law of 7 December 2016.

⁷³ Article 10, § 1, second paragraph van The Law of 7 December 2016.

⁷⁴ Article 17, § 3 of the Royal Decree of 21 July 2017.

This obligation applies to auditors who are natural persons⁷⁵ and to the audit firm⁷⁶ irrespective of whether the auditors who are natural persons are temporarily inactive as auditor⁷⁷.

In 2020, the BAOB examined the extent to which auditors fulfil this annual obligation.

The BAOB found that 134 auditors did not confirm in 2020 to the IBR/IRE that their data in the public register were complete and up-to-date.

Most of those that failed to fulfil this obligation were audit firms (107). Only a small number of auditors who are natural persons (27) did not fulfil this annual obligation of confirmation to the IBR/IRE.

The BAOB imposed a compliance deadline for each of the auditors. The auditors had to comply with the obligation of confirmation by this deadline. Although not every auditor strictly met the deadline imposed by the BAOB, 133 did meet the compliance deadline.

⁷⁵ Listed in the public register under the A category.

⁷⁶ Listed in the public register under the B category.

⁷⁷ Article 30 van The Law of 7 December 2016.

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7. PREVENTION OF MONEY LAUNDERING AND TERRORIST FINANCING

- 7.1. On-site inspections of non-PIE auditors and audit firms
- 7.2. Off-site inspections of all active auditors and audit firms
- 7.3. Council of Europe evaluation on the transposition of the 4th ML/TF Directive in Belgium

It is in the public interest that the BAOB, along with national and international supervisory authorities uniformly combat money laundering and terrorist financing (ML/TF) practices. This purports to two major aspects:

- the corrective aspect consists of ML/TF practices that are subject to criminal sanctions, to which the Criminal Code applies;
- the preventive aspect is covered by the Law of 18 September 2017. The BAOB is designated as the Belgian competent authority⁷⁸ to supervise compliance with the ML/TF measures among the auditors or audit firms under its supervision.

The BAOB conducts supervision of the audit firm at an organizational level as well as at the level of the audit tasks conducted. It examines whether the audit firm's organization complies with the Law of 18 September 2017. It also examines the audit tasks conducted to ascertain whether the auditor has duly applied the legislation.

The BAOB's oversight approach translates into:

- **on-site inspections** of non-PIE auditors and audit firms; and
- **off-site inspections** of all active auditors and audit firms; and
- **quality checks** of PIE auditors and audit firms as previously explained in this annual report⁷⁹.

7.1. On-site inspections of non-PIE auditors and audit firms

The on-site checks consist of an on-site inspection.

The selection of auditors or audit firms for the on-site inspection cycle is based on a risk model that the BAOB applies when it develops its periodic ML/TF questionnaire⁸⁰. After weighing up the inherent risk and a risk management score, this risk model assigns an overall ML/TF risk score to each individual auditor.

The BAOB selected 20 non-PIE auditors or audit firms for an on-site inspection:

- non-PIE auditors or audit firms with the highest overall risk score (10);
- non-PIE auditors or audit firms with the highest risk management score (5); and
- a random sample of 5 non-PIE auditors or audit firms.

In 2020, the BAOB ruled on 10 of these inspections.

⁷⁸ Article 85, § 1, 6° of the Law of 18 September 2017.

⁷⁹ See "Quality checks on public-interest entity (PIE) auditors or audit firms" in this annual report.

⁸⁰ Based on the sectoral risk analysis it conducted in 2018 and the answers of the auditors to the periodic questionnaire to ascertain ML/TF risks, the BAOB developed a methodology for processing useful and necessary information with the aim of assigning each auditor a risk score.

The results of the inspections show that a number of nonconformities as regards the legal framework are recurrent across all cases. The BAOB identified 82 nonconformities relating to 46 articles in the law and 18 clusters of related articles.

The main findings of the BAOB comprise:

- The **organization and internal control of non-PIE audit firms**. Statutory auditors or audit firms must develop and implement ML/TF policies, procedures and internal control measures that are efficient and commensurate with their nature and size (Article 8 of the Law of 18 September 2017)⁸¹. The nonconformities identified by the BAOB included:
 - Insufficient procedures as regards financial embargoes and staff training;
 - A lack of or insufficient procedures for keeping and erasing data⁸²;
 - Late implementation of effective procedures for the current legislative framework;
- The formal **appointment of the senior manager and AMLCO** as laid down in Article 9 of the Law of 18 September 2017;
- The **necessary training courses** as laid down in Article 11 of the Law of 18 September 2017;
- The **preparation of a suitable general risk assessment** that considers all factors as laid down in Article 16 of the Law of 18 September 2017. The BAOB developed the tool 'My general risk assessment', which consists of a table and associated practical guide⁸³. If auditors/audit firms use the table, they must adjust it to the specific characteristics of their activity. The general risk assessment is specific to the nature and scale of the auditor/audit firm's activity;
- The **completion of an individual risk assessment in a timely manner** as laid down in Article 19 of the Law of 18 September 2017. This individual risk assessment must take into account the general risk assessment and must result in a risk classification of clients with the suitable level of due diligence associated thereto;
- The **timely assessment of the intended nature of the business relationship or the occasional transaction and the timely identification and verification of the identity of clients, agents and beneficial owners** as referred to in Article 19 of the Law of 18 September 2017;
- The **determination in a timely manner of the capacity of Politically Exposed Person among clients, agents and beneficial owners** as laid down in Article 34 of the Law of 18 September 2017. From the audit files examined it was found that some auditors or audit firms could only confirm Politically Exposed Persons orally because of a lack of suitable procedures for carrying out these searches. Such an oral declaration is insufficient for the BAOB. The audit firm must prepare and implement a suitable procedure. The BAOB emphasizes in this respect the importance of documenting the review conducted and of making the right conclusions as regards due diligence. When assessing the approach, the BAOB takes into account the scale of the audit firm and the number of clients: however, a minimum obligation of documentation applies.

The BAOB developed the tool 'My general risk assessment'.

⁸¹ Given the nature of the Article, several of the nonconformities below refer to this Article.

⁸² Article 60-65 of the Law of 18 September 2017.

⁸³ The table for the general risk assessment for ML/TF and the practical guide is publicly available on the website of the BAOB through the following link: <https://www.fsma.be/en/circulars-and-communications>.

- **Preparing activity reports**⁸⁴. Irrespective of the size of the organization, auditors or audit firms must keep these activity reports and send them to the supervisory authorities if they so request. On 2 June 2020, the new ML/TF standard⁸⁵ of the IBR/IRE came into force.

7.2. Off-site inspections of all active auditors and audit firms

The off-site inspections by the BAOB arise from the answers that 1.430 auditors or audit firms gave on the periodic BAOB ML/TF questionnaire⁸⁶. 263 auditors or audit firms declared that they carried out activity. The BAOB then identified nonconformities as regards the legal requirements.

Of these 263 active auditors or audit firms, 58 did not conform. The BAOB imposed recovery measures on them⁸⁷. They concerned the following breaches, listed in order of importance and number of cases⁸⁸:

- No **formal designation of a person responsible at a senior level** as laid down in Article 9 of the Law of 18 September 2017. This obligation also applies to firms of a limited scale. The BAOB identified this nonconformity in **46** auditors or audit firms;
- No **completion of a client risk classification after the individual risk assessment** as laid down in Article 19 of the Law of 18 September 2017. The BAOB identified this nonconformity in **26** auditors or audit firms;
- No **procedures with regard to detecting atypical transactions** as laid down in Article 35 of the Law of 18 September 2017. The BAOB identified this nonconformity in **26** auditors or audit firms;
- No **verification of the identity of clients, agents and beneficial owners** as laid down in Articles 21, 22 and 23 of the Law of 18 September 2017. The BAOB identified this nonconformity in **3** auditors or audit firms;
- No **general risk assessment** as laid down in Article 16 of the Law of 18 September 2017. The BAOB identified this nonconformity in **1** auditor/audit firm;
- No **identification of the nature of the business relationship** as laid down in Articles 34 and 35 of the Law of 18 September 2017. The BAOB identified this nonconformity in **1** auditor/audit firm.

The recovery measures imposed by the BAOB entailed the auditors or audit firms concerned having to comply with the legislative framework within 4 months.

⁸⁴ At the time of the BAOB's supervision, the IBR/IRE standard of 4 February 2011 on the application of the Law of 11 January 1993 on preventing the use of the financial system for purposes of money laundering and terrorist financing still applied. This standard was replaced on 2 June 2020 by the Standard on the application of the Law of 18 September 2017.

⁸⁵ Standard on the application of the Law of 18 September 2017 on the prevention of money laundering and terrorist financing and on the restriction of the use of cash, <https://www.ibr-ire.be/nl/regelgeving-en-publicaties/normen-en-aanbevelingen/normen/norm-detail-page-nl/anti-witwas>.

⁸⁶ The information had to be received by the BAOB by 15 December 2018.

⁸⁷ The auditors or audit firms subjected to an on-site inspection were not included in this supervisory approach.

⁸⁸ An auditor or audit firm may have committed several of the infringements stated.

The majority (93%) of the auditors or audit firms complied by this deadline. The BAOB examined the supporting documents to ensure that the nonconformities identified had been remedied. Some audit firms were given extra time by the BAOB to conform.

The BAOB closed this supervisory programme in 2020 with satisfactory results.

7.3. Council of Europe evaluation on the transposition of the 4th ML/TF Directive in Belgium

ML/TF practices come in many forms and are constantly evolving. Furthermore, these illegal practices are not limited to a certain geographical territory. The BAOB is tasked by the legislature to supervise compliance with the Law of 18 September 2017 by Belgian auditors or audit firms⁸⁹.

The FATF, established in 1989, is an intergovernmental body and combats ML/TF and other threats to the integrity of the international financial system. For this purpose, it developed 40 recommendations that are recognized as the international standard for combating ML/TF.

The EU oversees that the Member States apply these FATF recommendations. To this end, it draws up Directives that the Member States must then transpose into their national legislation. The Law of 18 September 2017 transposes the 4th ML/TF Directive in Belgium.

Article 65 of the 4th ML/TF Directive determines that the EC must prepare a report by 11 January 2022 and every three years thereafter on the application thereof within the EU. For the purpose of report, the Council of Europe evaluates each EU Member State on the effectiveness of the transposition of the 4th ML/TF Directive.

Belgium's evaluation was initially planned for 2020. In the wake of the Covid-19 pandemic, however, the Council of Europe decided for safety's sake, to postpone this evaluation to 2021.

As the Belgian supervisory authority for auditors, the BAOB takes part in this evaluation.

⁸⁹ Article 85, § 1, 6° of the Law of 18 September 2017.

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8. MARKET SURVEILLANCE

- 8.1. European Commission - Report on developments in the EU market for statutory audit services to PIEs between 2015 and 2018
- 8.2. CEAOB - PIEs - Report on audit committees' application of the European rules from Regulation (EU) No 537/2014 and Directive 2006/43/EC

The EU market for delivery of statutory audit tasks of PIEs is constantly evolving. Cooperation with the authorities of different Member States is crucial to achieve a uniform and qualitative exercise of the profession across borders.

Regulation (EU) No 537/2014 provides that the Member States must designate the competent authorities for supervision of compliance and application thereof⁹⁰. Article 32 of the Law of 7 December 2016 designates the BAOB as the competent authority in Belgium.

8.1. European Commission - Report on developments in the EU market for statutory audit services to PIEs between 2015 and 2018

Article 27 of Regulation (EU) No 537/2014 regulates the periodic monitoring of the developments on the EU market for the provision of statutory audit tasks of PIEs. Each competent authority and the ECN prepare a report for this purpose at least every three years on market developments, which they send to the CEAOB, ESMA, the EBA, EIOPA and the EC.

In application thereof, the European Commission (EC) issued a report on 28 January 2021⁹¹ on the developments in the EU market for statutory audit services to PIEs between 2015 and 2018. The BAOB published the main developments reported by the EC on its website⁹².

A high degree of market concentration by the Big Four

The EC continues, in cooperation with the national competent authorities and the CEAOB, to monitor market concentration.

In the period between 2015 and 2018, the EC identified a persistently high market concentration. The Big Four still dominate the market for statutory audits of PIEs in most Member States.

The dominance of the Big Four could affect the independence of these audit firms and influence the quality of their audit tasks. As a result, the EC continues, in cooperation with the national competent authorities and the CEAOB, to monitor market concentration. It also investigates how certain measures such as the rotation requirement, prohibited non-audit services and the restriction of permitted non-audit services influence market concentration.

⁹⁰ Article 20 of Regulation No 537/2014.

⁹¹ Report from the Commission to the European Parliament, the Council, the European Central Bank and European Systemic Risk Board on developments in the EU market for statutory audit services to public-interest entities pursuant to Article 27 of Regulation (EU) No 537/2014, 28 January 2021, <https://eur-lex.europa.eu/legal-content/NL/TXT/?qid=1611853912933&uri=-COM%3A2021%3A29%3AFIN>.

⁹² European Commission - Report on developments in the EU market for statutory audit services to public-interest entities between 2015 and 2018, 3 March 2021, https://www.fsma.be/sites/default/files/public/content/CTRCRSR/2021-03-03_mededeling_verslag_ec_marktontwikkelingen_oob_nl.pdf.

Need for a uniform assessment of quality deficiencies

The most common quality deficiencies among PIE audit firms in the EU market are:

- deficiencies in audit firms' internal quality control systems;
- lack of, or inappropriate, monitoring of high-risk audited entities; and
- lack of audit evidence and audit documentation.

The BAOB also found these deficiencies in the Belgian market.

To improve the quality of assessments, the EC is striving towards a uniform approach to supervisory measures by the various national authorities. For this purpose, it works in conjunction with the CEAOB.

Different approaches for assessing the performance of audit committees

The EC cannot give an overall assessment of the performance of audit committees in the EU market because the various national authorities have different approaches to monitoring audit committees. The fact that most of the information is based on self-assessment by the audit committees⁹³ does not help come to an objective conclusion.

The EC will, in this respect, ascertain the way in which national competent authorities can improve their supervision of audit committees. It will also analyse how the independent role of audit committees in the selection process and the supervision of the statutory auditor can be reinforced.

8.2. CEAOB - PIEs - Report on audit committees' application of the European rules from Regulation (EU) No 537/2014 and Directive 2006/43/EC

At the end of 2020, the CEAOB published an analysis⁹⁴ of the application of European rules by audit committees. In this analysis, it tested the rules in Regulation (EU) No 537/2014 and Directive 2006/43/EC.

The CEAOB's analysis fits into the periodic monitoring of the EU market for providing statutory audit services to PIEs in accordance with Article 27 of Regulation (EU) No 537/2014.

⁹³ This relates to the questionnaire of the CEAOB, developed in 2019, which forms the basis for the CEAOB's report of 18 December 2020, CEAOB Analysis on Audit Committee indicators collected as part of the 2nd Market Monitoring report, https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/ceaob-audit-committee-analysis-2020_en.pdf.

⁹⁴ CEAOB Analysis on Audit committee indicators collected as part of the 2nd market monitoring report, 18 December 2020, https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/ceaob-audit-committee-analysis-2020_en.pdf.

The CEAOB's survey of European audit committees resulted in 1.695 answers from 26 EU Member States. The BAOB took part in this exercise and presented the questionnaire in 2019 to the audit committees of Belgian PIEs, and received 68 answers from a total of 179 registrants (i.e. 38%)⁹⁵.

For the interpretation of results, it should be underlined that they are based on self-assessment by the participating audit committees⁹⁶.

In general, the report shows that the audit committees and statutory auditor to a great extent apply the European rules. The large majority of audit committees supervise the fees of the statutory auditor.

In a number of areas, there are indications that they do not comply with the rules or that there is a lack of knowledge as to the application of the rules. This is the case for monitoring of the independence of the statutory auditor by the audit committee and the role of the audit committee in the selection process of a new statutory auditor.

The BAOB wishes to share the following interesting findings from the analysis⁹⁷:

- Directive 2006/43/EC, as amended by Directive 2014/56/EU, provides that the audit committee must consist of a majority of independent directors. The Belgian legislature has not transposed this provision in the statutory rules. Aside from the special sectoral legislation⁹⁸, the law in Belgium only prescribes that at least one member of the audit committee must be an independent director. The BAOB's analysis found, however, that 90% of audit committees of Belgian PIEs had a majority of independent members. The sector therefore in this respect does better than prescribed by the Belgian legislature⁹⁹. This is likely to be because of the 2009 Belgian Corporate Governance Code, which prescribes that at least the majority of members must be independent.
- In parallel to the Belgian findings, it appears that 8% of European audit committees declared that the majority of their members were not independent from the audited entity. A potential explanation that the CEAOB came up with was that audit committees may make use of exemptions included in local legislation. The information could, on the other hand, indicate non-compliance with the legal obligations.
- 90% of audit committees of Belgian PIEs and 96% of European audit committees actively monitor fees paid to the statutory auditor. This aims to comply with the 70% limit of fees for permitted non-audit services to PIEs. In this way, the audit committee contributes to monitoring the independence of the statutory auditor.
- As regards the independence of the statutory auditor, 95% of European audit committees received a written declaration of independence. This document is a legal obligation and confirms that the statutory auditor, the audit firm and partners, senior managers and managers who conduct the statutory audit are independent from the audited entity. In Belgium, this applied to 97% of the audit committees that participated in the survey.

⁹⁵ The data therefore only represent the answers from the audit committees that took part in the survey with no review of the accuracy or completeness thereof. The audit committees could opt not to answer the questions. Given the limited number of questionnaires filled in, the representativeness of these data for the PIE sector as a whole is not guaranteed.

⁹⁶ It is also in that sense that the terms 'audit committees of Belgian PIEs' should be understood.

⁹⁷ See also the publication of the BAOB of 3 March 2021 on its website: www.fsma.be/sites/default/files/public/content/CTRCSR/2021-03-03_mededeling_ceaob_rapport_auditcomite_nl.pdf.

⁹⁸ This is especially the case in the banking and insurance sector.

⁹⁹ It is also possible that audit committees that were the best at following the rules were also more inclined to take part in the survey.

- Only 76% of European audit committees discussed with the statutory auditor the threats to independence and the safeguards in order to mitigate those threats. In Belgium, this represents only 48 audit committees of the 68 that participated in the survey, i.e. 71%.
- In approximately half (54%) of the European PIEs for which the questionnaire was completed the statutory auditor also offers non-audit services apart from the statutory audit task. In Belgium this is 49%. Furthermore, the Belgian audit committees concerned declared to have examined all requests for providing non-audit services from statutory auditors. The CEAOB report showed that in 92% of cases European audit committees¹⁰⁰ examined requests for the provision of non-audit services by their statutory auditor before their performance. The conduct of the other 8% of European audit committees may be indicative of a breach in regulation or refer to the practice of pre-approving non-audit services without analysing specific projects. Regardless of the rationale for non-examination of requests for non-audit services, it does not absolve audit committees of their obligations around approval of non-audit services with a view to safeguarding the statutory auditor's independence.
- There is room for improvement with regard to compliance with the rules on the role of the audit committee in the selection process of a new statutory auditor. When asked if the audit committee identified in its recommendation to the administrative or supervisory body at least two candidates for appointment, only 58% of European audit committees indicated they had done so. In Belgium, it was less than half (47%) of audit committees. Mitigating circumstances could be the lack of suitable candidates or the lack of competition in the audit market.
- The selection process of a new statutory auditor must not hinder the participation of audit firms with a small share of the PIE audit market¹⁰¹. Only a little over half of the audited PIEs in Europe and Belgium (56% and 52% respectively) comply with this obligation. This may indicate a high level of non-compliance or a lack of knowledge of European legislation and regulations. By letting all audit firms take part in the selection procedure, the chance of more competition on the audit market is increased. The BAOB published a list on its website¹⁰² of audit firms of PIEs, indicating those with a small market share.

The results from the analysis by the CEAOB and the BAOB do not take into account the new 2020 Belgian Corporate Governance Code¹⁰³, given that the survey dates from 2019. As from 1 January 2020, all Belgian listed companies are obliged to apply the 10 principles of sound governance contained in this 2020 Code.

¹⁰⁰ In Belgium, the figure is 100%.

¹⁰¹ More specifically, these are firms that in the previous calendar year received less than 15% of the total fees for auditing PIEs in the Member State concerned.

¹⁰² In accordance with Article 16, paragraph 3 of Regulation (EU) No 537/2014, the BAOB published a list of audit firms that conduct statutory audits of the financial statements of PIEs: <https://www.fsma.be/en/list-audit-firms-public-interest-entities>.

¹⁰³ The Royal Decree of 12 May 2019 laying down the corporate governance code to be complied with by listed companies obliges Belgian listed companies to indicate the 2020 Belgian Corporate Governance Code as a reference code within the meaning of Article 3:6, § 2 of the Belgian Code on Companies and Associations.

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9. CHALLENGES FOR 2021

- 9.1. Covid-19
- 9.2. Brexit

9.1. Covid-19

The pandemic and ensuing measures taken by the various governments have had an undeniable impact on the work of auditors and on the BAOB's oversight.

The pandemic obliges auditors to focus particular attention on additional or different risks in their audit for the 2020 financial year. Opinion 2020/03 of the Council of the IBR/IRE on the impact of Covid-19 on audit work in the 2020 financial year offers auditors the necessary information.

The circumstances under which auditors have exercised their activity will be one of the factors the BAOB will take into account in its supervision. The pandemic does indeed influence the circumstances of the auditor's work but cannot stand in the way of offering a quality service. Third parties, such as investors, employees, creditors and shareholders must still be able to trust the reports the auditor prepares.

The way in which the BAOB takes this into account will in any case be reflected in its annual work programme and in the supervisory guidelines for the quality checks in 2021.

9.2. Brexit

In the second half of the year, the BAOB will evaluate the impact of Brexit in order to determine if action is required after 31 December 2020. The BAOB will contribute, as a technical advisor, to the drafting of a Royal Decree on third-party auditors.



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10. LIST OF ABBREVIATIONS

4AMLD or the 4th ML/TF Directive	Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing. For the text with EEA relevance; https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32015L0849
BAOB	Belgian Audit Oversight Board, established by Article 32 of the Law of 7 December 2016
Big Four	The big four audit firms, i.e. PwC, Deloitte, KPMG and EY
CEAOB	Committee of European Auditing Oversight Bodies as referred to in Article 30 of Regulation (EU) No 537/2014
Consultative assembly	Consultative assembly for public supervision of the profession of auditors as referred to in Article 63 of the Law of 7 December 2016
CTIF-CFI	The Belgian Financial Intelligence Processing Unit
Directive 2006/43/EC	Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC; For the text with EEA relevance; http://data.europa.eu/eli/dir/2006/43/oj
EBA	European Banking Authority
EC	European Commission
ECN	European Competition Network
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
EQCR	Engagement Quality Control Review
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EU	European Union
FATF	Financial Action Task Force
FPS Economy	Federal Public Service Economy, SMEs, Self-employed and Energy
FSMA	Financial Services and Markets Authority
HREB/CSPE	High Council for the Economic Professions, established by Article 54 of the Law of 22 April 1999 concerning the accounting and tax professions
IBR/IRE	Institut des réviseurs d'entreprises/Instituut der Bedrijfsrevisoren (Belgian Institute of Registered Auditors)
ICCI	Information centre for auditors
IFIAR	International Forum of Independent Audit Regulation
ISAs	International Standards on Auditing
ISQC 1	International Standard on Quality Control 1
ITAA	Institute for Tax advisors and Accountants

Law of 7 December 2016	Law of 7 December 2016 on the organization of the profession and the public supervision of auditors, http://www.ejustice.just.fgov.be/cgi_loi/change_lg.pl?language=nl&la=N&cn=2016120702&table_name=wet
Law of 18 September 2017	Law of 18 September 2017 on the prevention of money laundering and terrorist financing and on the restriction of the use of cash, https://www.nbb.be/doc/cp/eng/aml/law_10_09_2017_en_update.pdf
ML/TF	Money Laundering and Terrorist Financing
NBB	National Bank of Belgium
non-PIE	Organizations other than public-interest entities
non-PIE auditor	Auditors who do not audit a PIE that individually exceeds more than one criteria as referred to in Article 1:26 of the Belgian Companies and Associations Code
PCAOB	Public Company Accounting Oversight Board
PIE	Public-Interest Entity defined in Article 1:12 of the Belgian Companies and Associations Code as "listed companies whose shares, profit-sharing notes or certificates relating to these shares are admitted to trading on the regulated market, companies whose securities as referred to in Article 2, 31°, b) and c) of the Law of 2 August 2002 on the supervision of the financial sector and on financial services are admitted to trading on a regulated market, credit institutions, insurance or reinsurance companies, settlement institutions and institutions equivalent to settlement institutions"
PIE auditor	Auditors who audit one or more PIEs that individually exceed more than one criteria as referred to in Article 1:26 of the Belgian Code on Companies and Associations.
Regulation (EU) No 537/2014	Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC; For the text with EEA relevance; http://data.europa.eu/eli/reg/2014/537/oj
Sanctions Committee	Sanctions Committee of the FSMA as referred to in Article 47 of the Law of 2 August 2002 on the supervision of the financial sector and on financial services
Standard for continuing professional education	IBR/IRE standard of 30 August 2007 for continuing professional education

Legal responsibility for this publication: Ann De Roeck
rue du Congrès/Congresstraat 12-14, 1000 Brussels
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