



Action Plan 2023

20 February 2023

« In 2023, the BAOB continues to persistently focus on the improvement of audit quality and the integrity of the audit sector in Belgium to ensure greater protection for all users of financial information »

Bénédicte Vessié, Chair

1. Overall considerations

It is essential that citizens be able to trust all public and private institutions. This trust is a prerequisite for successful and prosperous economic and business activities. Consistent and accurate information for the relevant market participants is therefore a crucial requirement for honest and transparent financial markets. The business environment in which economic players and their auditors operate is constantly changing and becoming ever more complex. And so, too, are the needs of all those who stand to benefit from high-quality reporting in financial and other spheres.

Faced with the still-present coronavirus, intense geopolitical tensions and an uncertain economic environment, stakeholders need accurate information. This underscores the essential role of auditors in building confidence among third parties regarding the information provided by companies and other parties.

As a supervisor of audit quality, the role of the Belgian Audit Oversight Board (BAOB) is to tirelessly serve the interests of all parties by continually improving the audit quality ecosystem and trying to increase the confidence of investors, credit providers and stakeholders in the quality and reliability of the information audited by auditors.

If the results of its quality reviews continue to reveal shortcomings year after year, these should be primarily interpreted as opportunities for the profession to continue improving itself further. Improving the quality of their work is the only way to maintain and increase public trust.

2. Trends and risks in 2023

In 2023, various issues such as inflation and the associated cost increases, the impairment of assets and going concern issues, digitisation, the CSRD Directive and impending development of ESG norms and standards on non-financial reporting as well as integrity risks are all expected to have a significant impact on the audit sector.

The environment in which auditors operate is constantly changing with the emergence of new opportunities and risks. Similarly, the trends and risks identified by the BAOB at the start of the year are also continuously evolving.

The economic aftermath of the pandemic, inflation-related cost increases and the geopolitical uncertainty due to the war in Ukraine with a varied intensity of impact across sectors create uncertainty about the financial figures of economic players, the recoverability of their receivables and the valuation of their tangible and intangible assets.

Two long-term trends will impact the profession in the coming years.

The foremost long-term trend is that of digitisation and the technological evolution accompanied by increased data exploitation opportunities.

Digitisation is changing the nature of the audited companies, creating the need for adjustments in audit procedures. For example, an increasingly digital business process is making real-time reporting possible and offering access to additional data, apart from that available via the formal reporting process, which provides insight into a company's performance. This allows auditors to design their audit of the annual accounts more efficiently and effectively by using data analysis and other means. The larger audit firms are investing heavily in digitisation and want to make increasing use of technology and data analytics during their audit procedures. This implies opportunities as well as risks. Technology and data analytics may improve the quality of the audit, but they also give rise to issues regarding the reliability of these techniques, evidentiary value with respect to the BAOB and third parties, control of the IT environment and susceptibility to cybercrime.

Cybersecurity is a universal operational risk against which audit firms need to be constantly vigilant. Therefore, monitoring data security and the proper retention of audit files through appropriate organisational procedures should be the primary concern of every auditor. In this regard, the BAOB will continue to focus on ensuring that the final audit file is assembled in a timely manner and that auditors respect the integrity of the data in their audit files.

New trends in value creation among economic players explain the growing importance of the availability of non-financial information and make new risks, such as those relating to sustainability and cyber incidents, more relevant. These trends also lie at the basis of delicate valuations of intangible fixed assets linked to intellectual property rights, know-how in the supply chain process and digital business operations. Moreover, the BAOB intends to pay particular attention to virtual assets, which are expected to pose significant challenges for auditors.

The increased focus on sustainability is the second long-term trend that will have an impact on the profession.

With the publication of the European CSRD Directive, the audit of non-financial ESG reporting is a given. The topic of sustainability is gradually becoming an integral part of every business. For investors, sustainability aspects are an increasingly important factor in determining a company's long-term value. At the European level, new rules and standards have entered into force or are being developed to standardise the reporting in this regard so that they are more easily accessible to end users. This makes digital reporting possible (XBRL).

Starting in 2025, audit firms will have the opportunity to provide assurance on sustainability reporting. This presents opportunities as well as challenges for the profession, for example, in terms of knowledge acquisition and the staff to be employed.

Moreover, these shifts are taking place against the backdrop of existing challenges such as the need to improve audit quality, focusing more on continuity and integrity risks, and finding and retaining suitable staff.

The difficulty in recruiting staff is common to many economic sectors and represents an operational risk for audit firms. The need for adequate staff is greater for those who wish to specialise in the auditing of sustainability reporting in future.

Both small and large audit firms will need to make sure they are investing a sufficient amount of time and resources in their audits. Audit quality must not decline to the detriment of users of financial information: stakeholders must be able to rely on reports that are prepared based on adequate knowledge and resources. The BAOB takes this issue into account in its risk-based approach.

Finally, an ever-present risk is the involvement of audit firms in integrity incidents associated with their clients as a result of money laundering, terrorist financing, rogue organisations or other forms of white-collar crime (whether organised or otherwise). The greater focus on this risk among audit firms may result in smaller firms accepting clients with higher integrity risks. The BAOB also takes this into account in its risk-based approach.

This integrity risk is definitely present in the case of clients with international operations, but even companies with only domestic operations are exposed to this risk. Moreover, this is an especially high risk in certain sectors such as those dealing with used vehicles, luxury products, hospitality, virtual assets, etc. This high risk of money laundering requires an appropriate and enhanced level of vigilance.

3. BAOB Action Plan in 2023

In 2023, the BAOB has chosen to pursue a proactive Action Plan fully focused on material audit quality risks and integrity. The BAOB is also committed to establishing an intensive dialogue with the sector and fine-tuning its risk-based approach by paying more attention to data collection and quality. In 2023, organisational themes will only be addressed to a limited extent to give the sector every opportunity to implement the ISQM.

The BAOB is a risk-based supervisory body that uses its resources to create maximum public value. Through its operations, the BAOB wants to prevent end users of financial information from being harmed by inadequate information, misinformation or decreased trust in this information. After all, this may lead to incorrect investment or credit decisions and, in extreme cases, financial loss due to financial reporting fraud.

The BAOB combines its risk-based oversight activities with continuous audit quality reviews.

With its Action Plan, the BAOB aims to focus its efforts on audit quality and integrity, by fine-tuning its risk-based approach with greater attention to data collection and quality.

This risk-based approach will ensure that, throughout the quality reviews, attention is paid to key themes relating to social developments and the risks and difficulties faced by the profession.

In 2023, organisational themes will only be addressed to a limited extent to give the sector every opportunity to implement the new International Standard on Quality Management (ISQM)¹ for auditors.

The BAOB also intends to engage in an active dialogue with the sector regarding the actions taken by auditors and audit firms to ensure higher audit quality, implement the ISQM and manage integrity risks.

This Action Plan of the BAOB covers the following areas²:

- governance by the BAOB;
- communication by the BAOB and dialogue with the sector;
- quality reviews by the BAOB;
- oversight by the BAOB;
- combating money laundering and terrorist financing;
- enforcement actions of the BAOB.

¹ Earlier "International Standard on Quality Control" (ISQC).

² The order in which the topics are listed is not an indication of the importance attached to them.

3.1. Governance by the BAOB

The BAOB is continually exploring ways to improve the use of the data at its disposal, the sectoral risk assessments and the time taken to process these, and the scope of its quality reviews.

In the coming years, the BAOB intends to develop more **data-driven oversight** activities to gain a more in-depth understanding of the sector and how it evolves, as well as to better align itself with the trend towards digitisation in the audit profession. This data collection process will always be carried out with the necessary consideration for the workload imposed on auditors and a focus on safeguards such as adequate data protection.

A recurrent and important area of concern for the BAOB is the quality of the data used by the BAOB for performing its tasks and the availability of detailed, accurate and up-to-date information. Indeed, the BAOB relies largely on this information for the performance of its oversight tasks. That is why it expects to receive high-quality and accurate information.

This applies, first and foremost, to the data provided by auditors for inclusion in the public register, which is used not only by the BAOB and the Institute of Company Auditors (*Instituut van de Bedrijfsrevisoren - L'Institut des Réviseurs d'Entreprises*, hereinafter referred to as "IBR-IRE") but also by the public. As in 2022, the BAOB will take specific measures in 2023 to further improve the quality of the data published in the register. It will carry out this monitoring in cooperation with the IBR-IRE, the body to which the legislator has delegated the task of maintaining and updating the public register.

This also refers to the data provided in the context of the Auditors Annual Cartography (AAC) and the responses to questionnaires prepared by the BAOB or any other information provided to the BAOB under other circumstances.

In 2023, besides the current practice of sampling, the BAOB will also thoroughly examine the quality and underlying processes of the largest audit firms, who perform audits of public-interest entities (PIE auditors), in terms of the information provided by them in the AAC³.

3.2. Communication by the BAOB and dialogue with the sector

The BAOB attaches great importance to adequately **communicating to the sector its expectations** regarding the application of the regulatory framework.

To do this, the BAOB launched a new website in 2022 aimed at providing information in a more structured manner. In 2023, the BAOB will continue to share its insights with the sector to increase the predictability of its actions.

³ All audit firms undergo sampling checks in connection with the accuracy of the data entered by them in the AAC; in fact, these data are also checked as part of the quality reviews.

In addition, the BAOB emphasises the importance of national dialogue and international cooperation.

As far as the **national dialogue** is concerned, the BAOB aims to strengthen the dialogue with the sector in 2023 so that it can better understand the challenges within the sector. More specifically, the BAOB wishes to gain a more detailed insight into how auditors and audit firms intend to improve audit quality and implement the new International Standard on Quality Management⁴. The BAOB also wants to gain a better understanding of the vigilance exercised by them with regard to integrity risks such as those relating to fraud and money laundering.

In addition, the BAOB regularly exchanges views with the High Council for the Economic Professions (*Conseil supérieur des Professions économiques - Hoge Raad voor de Economische Beroepen*, hereinafter referred to as “CSPE-HREB”). This is usually done in the following ways: either the CSPE-HREB requests the BAOB for its opinions on draft standards prepared by the IBR-IRE or the BAOB requests opinions on matters relating to the standards or there is an exchange of ideas regarding evolutions in the sector.

The BAOB will also continue its dialogue with the IBR-IRE. In this dialogue, priority will be given to the evaluation of the annual report of the IBR-IRE on the performance of the tasks delegated to it by law, the quality of the data in the public register, the continuing professional development of auditors, and the recurrent problems in their audit files. Apart from this, the BAOB will pay attention to other issues related to the opportunities and challenges of the profession.

Furthermore, in the context of combating money laundering, the BAOB will conduct a more in-depth dialogue with the General Administration of the Treasury, the Financial Intelligence Processing Unit, the National Bank of Belgium and the Financial Services and Markets Authority (FSMA).

With regard to the technological aspects of data analytics, the BAOB works closely together with the FSMA, which provides the necessary support.

Finally, the BAOB also provides technical advice to ministerial offices at their request.

In the area of **international cooperation**, the primary focus of the BAOB lies on monitoring the evolutions in the sector and in audit standards, determining the audit quality indicators, ensuring a level playing field at the European level, and maintaining oversight over cross-border audit firms.

As far as European and international cooperation is concerned, besides participating in the activities of the Committee of European Audit Oversight Bodies (CEAOB) and the International Forum of Independent Audit Regulation (IFIAR), the BAOB will also contribute to the activities performed by

⁴ [IBR-IRE website](#): “In applying a risk-based approach, the audit firm must take into account the requirements of the standard by aligning this to (i) the organisation of the firm and (ii) the nature and circumstances of the audit engagements performed by the firm. According to the draft standard on the application of International Standards for Quality Management 1 and 2 (ISQM 1 and 2) and ISA 220 (Revised), the quality management system must be set up by 15 December 2023 at the latest; the implementation and monitoring will take place in 2024.”

European committees, made up of the public supervisory authorities from EU Member States, in connection with the international networks of audit firms. As a member of the CEAOB, the BAOB will deliberate on the European ambitions in the area of corporate reporting, which includes an audit component. The BAOB may also respond to requests for bilateral international cooperation, particularly in the context of the cooperation with its American counterpart, the Public Company Accounting Oversight Board (PCAOB).

3.3. Quality reviews by the BAOB

Each year, based on its risk assessment, the BAOB determines which auditors and audit firms will be subject to its quality review, irrespective of whether these auditors are engaged in performing statutory audits of public-interest entities (PIE).

The BAOB considers the quality reviews as long-term review cycles carried out on a recurrent basis. As in the case of the oversight activities, the BAOB also uses its resources within these quality review cycles in a risk-based manner not only to address situations that have the potential to cause more harm but also to examine new trends and evolutions.

The BAOB also ensures that risk-based selections and sampling are always supplemented by random sampling to guarantee the reliability and representativeness of the review results.

The BAOB attaches great importance to carrying out its quality controls in a proportional manner, taking into account the size of the audit firm and the nature of services it provides.

More comprehensive risk-based and proportional quality reviews

In the coming years, the BAOB aims to make its risk-based and proportionate approach more comprehensive and thorough by continuously fine-tuning the segmentation of audit firms based on client type, activity type, turnover and employee headcount.

This is to ensure that the intensity of the quality reviews and the BAOB's expectations regarding the quality of the organisational set-up are proportionate to each segment.

The BAOB intends to gradually intensify the frequency of the reviews of PIE auditors by combining the quality reviews with thematic inspections.

The continuing trend of consolidation means that a number of particularly large firms are developing in the non-PIE segment.

From a risk-based perspective, the BAOB expects these large non-PIE audit firms to have a sufficiently high-quality organisational set-up and that they actively manage their continuous efforts to improve audit quality.

In the coming years, the BAOB will try, gradually and in a risk-based manner, to make the quality review cycle for these audit firms shorter than the minimum six-year cycle required by law.

The approach to the quality reviews of smaller audit firms and sole practitioners will remain unchanged in 2023.

Risk-based quality review of material audit quality risks

In 2023, for all auditors and audit firms, who have both PIE and non-PIE clients, the BAOB wishes to adopt a holistic approach to audit quality by performing reviews that are closely tailored to the specific risks typical to the selected mandates. This should make it possible to review the application of the legal framework and standards in the audit files to identify any material audit quality risks.

For this, a representative sample of statutory auditor mandates may be reviewed with a focus on certain key elements such as:

- planning of the audit;
- the risk assessment and determination of the audit response;
- consolidation;
- the materiality threshold;
- the performance of the audit tasks with respect to certain identified risks, particularly in connection with continuity, valuations for reporting purposes and indications of fraud;
- the archiving and management of the file.

In 2023, when **selecting the statutory audit engagements** to be reviewed, the BAOB will pay particular attention to the impact of economic changes, trends and risks (as set under 2. Trends and risks in 2023) based on the following themes:

- social impact of the company audited by the auditor;
- mandates for which exceptionally few audit hours have been spent or for which very low fees have been charged;
- continuity and bankruptcy;
- valuations for reporting purposes;
- sectors and audit clients impacted by the coronavirus pandemic, inflation and economic uncertainty (manufacturing companies with supply-chain problems, bad debts, decrease in customer numbers, declining profitability partly due to greatly increased costs, significant impairments, financing problems, continuity problems, etc.);
- sectors characterised by a high degree of digitisation.

Joint inspections with the PCAOB

The BAOB will continue conducting **joint inspections with the PCAOB**, a practice that was initiated in 2021. These inspections aim to assess the quality of the services provided to PIEs as outlined in American legislation. In view of the PCAOB's objective, it is theoretically possible that an audit firm that does not qualify as a PIE auditor in Belgium could, nevertheless, be subject to a joint inspection by the BAOB and the PCAOB.

Several joint inspections with the PCAOB are planned for 2023. The BAOB conducts these joint inspections in consultation with the PCAOB based on a three-year cycle in line with American legislation that provides for a minimum three-yearly review.

When planning its quality reviews, the BAOB takes the PCAOB's schedule into account as far as possible in order to prioritise its joint inspections with the PCAOB. This is in the interest of Belgian companies listed on regulated markets in the US (NYSE, NASDAQ, OTC, etc.)⁵.

The experience of conducting inspections in cooperation with the PCAOB shows that this involves a comprehensive inspection of the quality management system of the audit firm. The PCAOB's perspective differs from that of the BAOB. Quite logically, the PCAOB's focus lies on the accurate reporting on listed companies in the US in compliance with American regulations. Nevertheless, there are significant overlaps. In selecting the inspection themes, the BAOB will often, for the sake of efficiency, adopt a hybrid approach by largely aligning itself with the choice made by the PCAOB, and possibly adding a few - more Belgian - themes of its own⁶.

3.4. Oversight by the BAOB

In addition to the quality reviews performed, the BAOB may also decide to fulfil its public oversight tasks by conducting targeted or thematic reviews of one or more audit firms based on trends, evolutions and new insights.

Such oversight files may also be opened due to bankruptcies, disputes or allegations of fraud received by the BAOB via, for example, complaints or whistleblowers' reports, newspaper reports and notices of early termination of statutory auditor mandates. When a file is opened at the BAOB's initiative, the Secretary-General may also take into consideration information received from other authorities or third parties.

Some of these files have a considerable social impact and place heavy demands on the means of inspection available to the BAOB. However, the investigation of these files is important in order to increase the trust in the services provided by auditors.

Although the question often arises in oversight files about what lessons could be learned from past experience, it is important to stress that the BAOB's mandate is to solely oversee the audit quality and ensure compliance with obligations arising from the legal and regulatory framework. In handling the oversight files, the BAOB considers it very important to evaluate each file on its individual merits, without bias and without regard to subsequent events.

⁵ The BAOB notes the importance of joint inspections of the Belgian companies listed on regulated markets in the US in its Communication on the negotiations for a cooperation agreement with the PCAOB, ([Mededeling inzake de onderhandelingen over een samenwerkingsakkoord met de PCAOB](#)), which is published on its website.

⁶ It is useful to note that the PCAOB has a thorough understanding of the organisational procedures of the audit firm to be inspected, since these organisational procedures are determined by international networks and since the PCAOB has experience in inspecting audit firms in multiple countries.

3.5. Combating money laundering and terrorist financing

In 2023, the BAOB will publish its updated sectoral risk assessment of money laundering and terrorist financing to assist auditors in assessing their integrity risks and their client's risk profile. This assessment will include the results of the survey of auditors and audit firms conducted by the BAOB in the summer of 2022.

In the context of its quality review of non-PIE auditors, the BAOB will review a selection of audit files to examine the firm's organisation as well as the application of organisational procedures. This is part of the BAOB's attempt to subject the entire sector to a basic review to verify the presence of a general risk assessment and an individual risk assessment for each client, compliance with due diligence requirements and the identification of politically exposed persons.

In 2023, the thematic inspections conducted for the purpose of combating money laundering and terrorist financing will continue to be an important part of the BAOB's activities. These inspections take into account the risk profile of the auditor as well as the results of the survey held in the summer of 2022.

The thematic inspection, launched in 2022, within the leisure sector and some of its sub-segments that are more exposed to money laundering risks will be completed in 2023.

In general, the sector submits relatively few reports regarding suspicious transactions to the Financial Intelligence Processing Unit. The identification and guidance of politically exposed persons could also be improved. The BAOB will focus on these areas of concern.

Finally, the BAOB intends to carry out sampling checks with a particular focus on the effective application of internal organisational procedures in audit files, which will include Belgian audit firms carrying out audit activities in Belgium and abroad. This does not only concern audit mandates since special engagements or accounting activities may also entail higher risks.

3.6. Enforcement actions of the BAOB

Enforcement is the cornerstone of a strong supervisory authority that acts in the public interest and, through its actions, ensures that confidence in the sector is maintained. However, these actions must be performed with a sense of balance and proportionality.

The BAOB will use all the measures in its so-called toolbox to achieve the objective defined by the legislator and, if needed, will propose to the competent minister additional measures or a fine-tuning of the existing measures.

In case there are strong indications of the existence of a practice that is liable to result in the imposition of an administrative measure or an administrative fine, the Secretary-General of the BAOB may decide to open an investigation file. Subsequently, the Secretary-General undertakes various investigative actions, based on which a report is submitted to the BAOB Committee. The BAOB Committee is competent to decide on the appropriate action to be taken regarding the final investigation reports of

the Secretary-General. It can decide to refer the matter to the Sanctions Committee, and even impose appropriate measures or close the case without further action.

Hence, the approach will be continued further in line with the actions taken in 2022, which have resulted in administrative fines and measures as pronounced by the Sanctions Committee and published on the FSMA website⁷.

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⁷ The decisions of the Sanctions Committee under the Law of 7 December 2016 on the organisation of the profession and the public oversight of auditors (*Wet van 7 december 2016 tot organisatie van het beroep van en het publiek toezicht op de bedrijfsrevisoren*) may be consulted [here](#).