



## Insights

Thursday, 25 January 2024

### Best practices and highlights of the observations made during quality assurance reviews in 2022 at non-PIE auditors (campaign launched in 2022 and completed in H2 2023)

The Belgian Audit Oversight Board (hereafter: BAOB) carries out quality assurance reviews of auditors and audit firms in application of Article 52 of the Law of 7 December 2016 on the organization of the profession and the public oversight of auditors (hereafter: “Law of 7 December 2016”).

Below, we set out the most frequent observations and a few best practices that the BAOB noted during its quality review at non-PIE auditors<sup>1</sup>, started in 2022 and completed in H2 2023.

#### 1. Quality assurance reviews as an examination of the professional activities of an auditor

A quality assurance review of an auditor’s professional activities is intended, among other things, to examine whether the auditor’s organization is appropriate for the nature and scale of its activities and whether it carries out its activities in accordance with the supervisory standards and applicable rules of ethics. Quality assurance reviews are the cornerstone of public trust in financial and non-financial information. Each year, the BAOB subjects different non-PIE auditors and audit firms to a quality assurance review. The selection consists of auditors and audit firms chosen in order to fit with the six-year supervisory cycle and of auditors and audit firms that have been identified as posing a potentially elevated risk of lower audit quality.

**During its quality assurance reviews of non-PIE auditors in 2022, the BAOB:**

- **examined the organizational structure of 22 auditors<sup>2</sup> and**
- **inspected at least one audit engagement<sup>3</sup> at 39 auditors.**

<sup>1</sup> Auditors who do not audit a Public Interest Entity (PIE) that individually fulfils more than one criterion as referred to in Article 1:26 of the Code on Companies and Associations (CCA).

<sup>2</sup> Natural person auditors and audit firms.

<sup>3</sup> Audit mandate and/or other statutory audit engagement.

As a result of the campaign, the BAOB imposed **141<sup>4</sup> measures**, including:

- 10 points of order;
- 51 compliance deadlines;
- 21 orders; and
- 59 recommendations.

By way of comparison: the previous quality assurance review campaign<sup>5</sup> imposed 228 measures<sup>6</sup>.

The BAOB's measures are intended to be preventive in nature and prevent repetition of the infringement in question<sup>7</sup>.

*Caveat:*

*Since the selection of auditors and audit firms changes each year, the results are not directly comparable from year to year. Moreover, the annual sample of auditors or audit firms to be subjected to oversight may include a number of those auditors or audit firms that are considered risky as a result of the targeted selection of auditors and audit firms, a decision that can affect the interpretation of the results.*

*The BAOB's risk-based method of selecting files (and specific parts of those files) for inspection is not intended to gather a representative sample of the audit activities of an auditor. It is focused on a selection of audit engagements with a potentially elevated risk of lower audit quality, such as files involving more complex entities or more risky sectors, or for which low fees are charged. The selection also includes a number of randomly chosen audit files.*

*Our inspections did not examine every aspect of every file. These inspection results cannot be extrapolated to the entire audit population, but should be regarded as an indication of the way in which auditors approach their potentially risky audit engagements.*

<sup>4</sup> The BAOB Committee assesses each infringement separately. Only in the exceptional case that infringements are similar or very similar in nature does the BAOB Committee impose a single measure on several infringements together.

<sup>5</sup> Quality assurance reviews in 2021 at non-PIE auditors.

<sup>6</sup> Not including the points requiring attention identified by the BAOB.

<sup>7</sup> More information about measures that the BAOB may take is available on the [BAOB website](#). Points of order are regulatory measures. Only the FSMA's Sanctions Committee is competent to impose administrative sanctions and punitive measures.

## 2. Infringements relating to organizational structure

The BAOB decided, based on its 2022 action plan, to organize its quality assurance reviews of non-PIE auditors around a thematic approach:

- monitoring;
- archiving;
- combating money laundering and terrorist financing.

The quality assurance reviews always include an analysis of the structure of the internal quality management system and the implementation of the procedures, as well as the legal and regulatory framework in individual audit engagements.

As a fundamental concept in quality management, the theme of monitoring is very important both for the structure of audit procedures and for their implementation. A focus on monitoring also allows the BAOB to extend its oversight to the application of the legal and normative framework in audit engagements.

In selecting the statutory audit engagements in which to review the monitoring process, the BAOB paid particular attention to the impact of the COVID-19 pandemic by examining the following topics:

- continuity and bankruptcy;
- accounting valuations;
- sectors and audit clients impacted by the COVID-19 pandemic (production companies with supply chain problems, irrecoverable debts, decrease in number of customers, etc.);
- activities in relation to the works council. Where applicable, the BAOB wanted to examine whether the auditor was present at the works council if required to do so, and whether he or she shared the requisite legal information.

The review carried out identified the infringements indicated in the following figure.

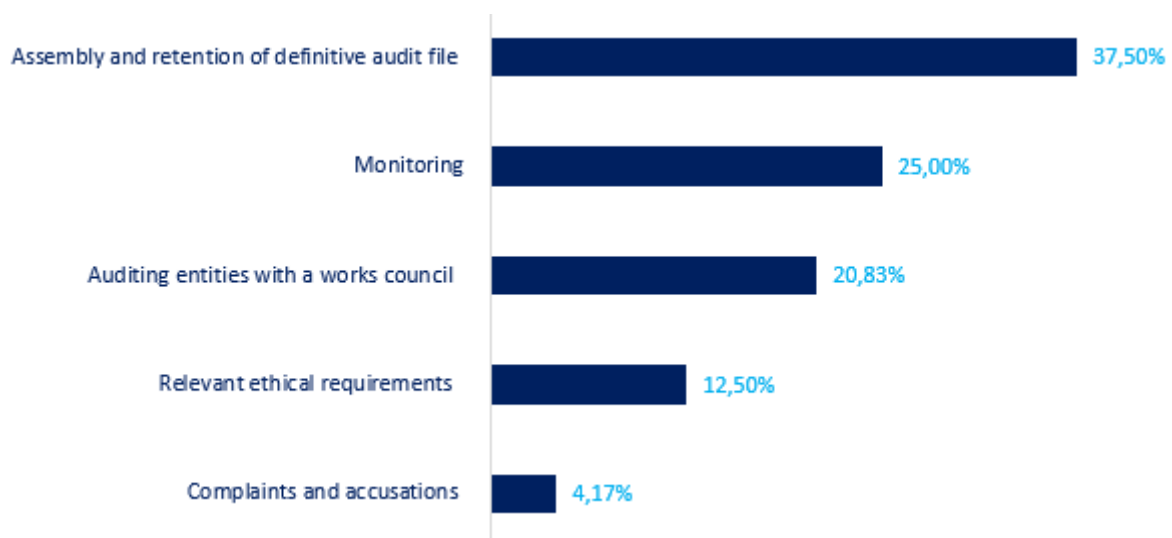


Figure 1: Infringements relating to organizational structure at non-PIE auditors

**Top 3 infringements  
relating to organizational structure**

1. *Inadequate implementation of procedures for the assembly and retention of a definitive audit file*
2. *Failure to effectively conduct the monitoring process*
3. *Inadequate activities in relation to the works council*

**Most of the infringements (37,50 %) relating to organizational structure at non-PIE auditors observed by the BAOB concerned the implementation of procedures for the assembly and retention of a definitive audit file. The issue is far from mere formalism.**

Partly with a view to the internal and external justification of the smooth performance of an audit, a good audit file is one in which all documents have been entered and the file closed at the latest 60 days after the signing of the auditor's statement.

Article 17, §§ 2 and 3 of the Law of 7 December 2016 states:

*“§ 2. The auditor shall retain all other data and documents that are of importance in support of the audit engagement, so as to provide a fair view of the performance of the engagement.  
§ 3. The audit file must be closed at the latest 60 days after the date of the signing of the auditor's report.”*

Archiving is the final step in a legally constituted audit file, and its retention without change or alteration of the file or its contents must be guaranteed.

Where the auditor finds it necessary to modify existing documentation or add new items after the assembly of the final audit file, he or she must document, in the audit file:

- the specific reasons for making the modifications or additions;
- when and by whom they were made and reviewed<sup>8</sup>.

**An audit file is legally valid only if it gives a fair view of the performance of the engagement.**

Although the BAOB regularly observes gaps in the definitive assembly of audit files, it noted that there were a number of non-PIE auditors (audit firms) with no infringements. This is worthy of praise and is the result of discipline.

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<sup>8</sup> ISA 230.16.



*In what follows, we list a few effective initiatives and good practices identified by the BAOB as regards the definitive assembly of audit files:*

- *creating entirely paperless electronic audit files, in order to put an end to delays in gathering paper documentation;*
- *using an automatic archiving function of the audit software to gather the audit information within the collection period;*
- *following a stricter policy by introducing a shorter assembly period than required under the legal and regulatory framework (i.e. less than 60 days);*
- *automating reminder emails for the personnel for approaching deadlines, with increasing frequency as the deadline approaches; and*
- *Setting a strict tone at the top by emphasizing the importance of the audit file and addressing infringements in the performance reviews.*

**The second largest category (25 %) of infringements relating to organizational structure at non-PIE auditors concerns the required monitoring.**

Monitoring compliance with an audit firm's quality management policies and procedures is intended to determine whether the firm complies with the professional standards and the applicable legal and regulatory requirements, whether the quality management system is adequate and is effectively being implemented, and whether the audit firm's quality management policies and procedures are correctly applied, so that the reports issued by the firm are appropriate in the circumstances.

Monitoring applies to all areas of an audit firm's quality management system and constitutes a cornerstone for guaranteeing and underpinning the quality of the auditor's activities. **It is surprising that nearly 10 years after the entry into force of ISQC 1, some auditors still do not grasp, or do not apply, this basic concept.**

The most frequent infringement relating to monitoring noted by the BAOB is that audit firms limited themselves to drawing up a written monitoring process. This is not enough. They must also implement that process and document it adequately.

**As from 15 December 2023, the new ISQM 1<sup>9</sup> entered into force, replacing the ISQC 1 standard and introducing the structure and implementation of a new quality management system for audit engagements. Paragraphs 53 and 54 of ISQM 1 require an evaluation of the quality management system within one year, that is, by 15 December 2024.**

<sup>9</sup> International Standard on Quality Management (ISQM) 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements.



*Auditors (audit firms) should regularly review the structure and effectiveness of their internal monitoring in areas of quality control that affect the entire firm, to ensure that the monitoring activities are performed appropriately and in a timely manner.*

*It may be useful to digitalize or automate certain monitoring activities, where that is feasible, such as for the monitoring or acceptance and continuation of relationships with clients, and thus to heighten the certainty of internal procedures.*

*One good practice consists of identifying, by way of a root cause analysis, the underlying causes of the infringements and thus to design an effective plan for rectification.*

*Promptly communicating the findings/observations relating to the audit firm's audit activities to its personnel in order to prevent a repeat of the infringements.*

**The third most frequent infringement relating to organizational structure (20,83 %) that the BAOB observed at non-PIE audit firms concern audits at companies where a works council has been established (Articles 3:83 through 3:92 of the CCA<sup>10</sup>).**

The statutory auditor, and in some cases the company auditor, at a company with a works council has the following 4 tasks:

1. reporting to the works council on the financial statements and the annual report;
2. certifying the reliability and completeness of the economic and financial information provided by management to the works council<sup>11</sup>;
3. in particular, explaining and analysing the significance of the company's economic and financial information regarding the financial structure and changes in financial situation, for the benefit of the members of the works council appointed by the employees;
4. if the auditor considers that he or she cannot issue the certification referred to in point 2 above, or if he or she identifies gaps in the economic and financial information provided to the works council, he or she shall notify management and, if no response is forthcoming within a month of that notification, take personal initiative to inform the works council.

<sup>10</sup> Belgian Code on Companies and Associations (hereafter "CCA").

<sup>11</sup> Provided the information comes from the company's accounts, financial statements or other verifiable documents.

In a company with a works council, the company auditor is appointed on the proposal of the works council, deliberating at the initiative and on the proposal of the governing body, and taking a decision by a majority of the votes cast by its members and a majority of the votes cast by the members appointed by the employees.

The most frequent infringements observed by the BAOB were:

- absence in the audit file of the minutes of the works council on the (re)appointment;
- failure to report, in the second part of the auditor's report, breaches of the legal provisions of the CCA regarding auditing a company with a works council, such as the failure on the part of the governing body to hand over a copy of the economic and financial information.



*A work programme with the relevant working papers is a good practice, to fulfil the requirements regarding the structure and completeness of the audit file.*

*The work programme for the aforementioned 4 tasks is comparable to traditional working programmes. Issuing a report on the financial statements and on the annual report for the works council fulfils the legal mandate of the company auditor and the obligation to report to the general meeting, as is the case in companies without a works council.*

*The search for any gaps in the economic and financial information provided to the works council should be reflected in the audit programme and the audit file. A good practice is to use a checklist to ensure that the information is complete, so as to be able to evaluate the impact of a failure to provide information on the fair view of the company.*

*It is useful to refer in the work programme to legal and regulatory provisions in order to guarantee the completeness of the audit procedures to be carried out.*

### 3. Infringements relating to audit engagements

The figure below shows the categories of audit procedures in which the BAOB identified infringements during its oversight of the audit quality in the individual audit engagements.

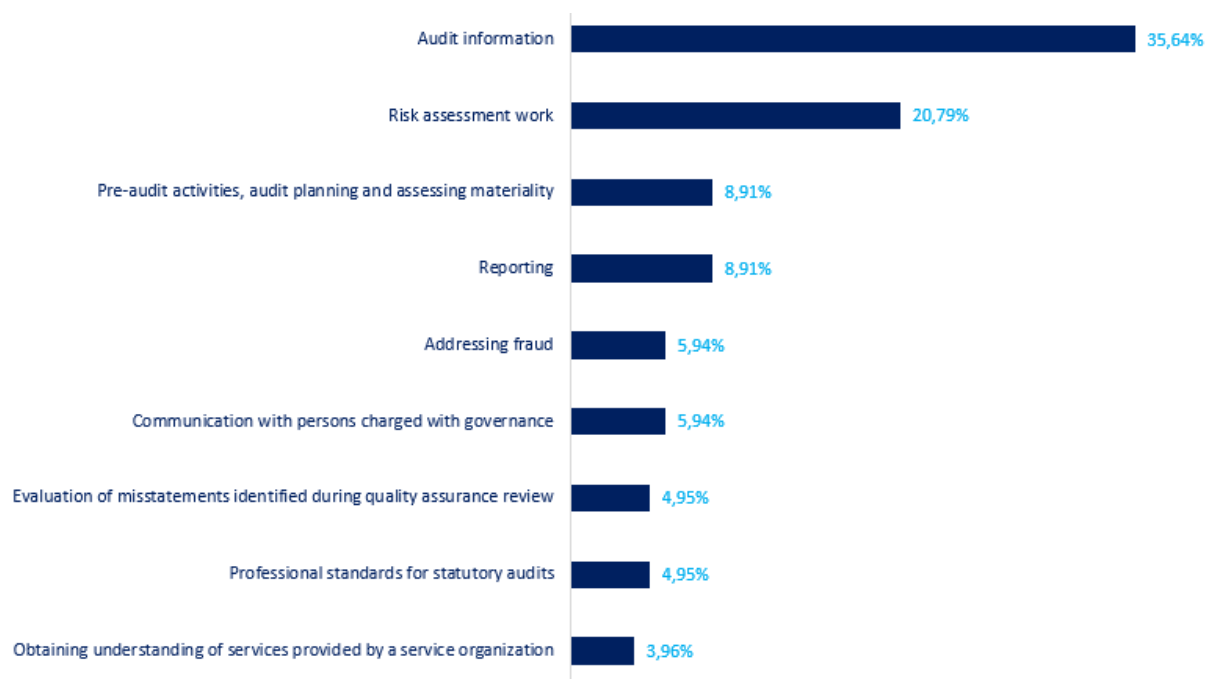


Figure 2: Infringements in audit engagements at non-PIE auditors

#### **Top 3 infringements in audit engagements**

1. *Audit activities that are not adequate to allow for sufficient appropriate audit information to be obtained for the auditor to draw reasonable conclusions on which to base his or her opinion*
2. *Inadequate risk assessment work to identify and assess the risks of material misstatement, due to a lack of sufficient understanding of an entity and its environment*
3. *Inadequate performance of pre-audit activities, planning of the audit, the level of materiality and breaches of the CCA*

The most frequent infringement (35,64 %) that the BAOB observed in the audit files had to do with audit information. Audit information is essential to enable the auditor to document his or her opinion and auditor's statement.



ISA 500 addresses the responsibility of the auditor to design and perform audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion. ISA 500 applies to all audit information that the auditor obtains in the course of an audit.

Other ISAs address specific aspects of the audit (e.g. ISA 315 (Revised)<sup>12</sup>), audit information relating to a given topic (e.g. ISA 570 (Revised)<sup>13</sup>), specific activities to obtain audit information (e.g. ISA 520<sup>14</sup>), and the evaluation as to whether sufficient appropriate audit information has been obtained (ISA 200<sup>15</sup> and ISA 330<sup>16</sup>).

From the least to the most frequently observed infringements within the category of audit information, the BAOB observed infringements of:

- ISA 530 on the use of sampling in performing audit procedures;
- ISA 520 on the use of substantive analytical procedures to obtain relevant and reliable audit information;
- ISA 550 on audit information relating to related party relationships and transactions;
- ISA 500 on audit activities intended to obtain sufficient appropriate audit information to be able to draw reasonable conclusions on which to base the auditor's opinion;
- ISA 505 on audit activities relating to external confirmations;
- ISA 501 on audit information with respect to certain aspects of inventory;
- ISA 560 on events occurring after the end of the reporting period;
- ISA 570 on audit information relating to the appropriateness of management's use of the going concern basis of accounting and the entity's ability to continue as a going concern;
- ISA 540 on auditing accounting estimates.



*The bulk of the auditor's task in forming his or her opinion consists in obtaining and assessing the audit information.*

*Audit activities with a view to obtaining audit information may include inspections, observations, confirmations, reviews, quantitative analyses and repeating analyses, often in a particular combination, in addition to asking for explanations.*

<sup>12</sup> ISA 315 (Revised), Identifying and assessing the risks of material misstatement by obtaining an understanding of the entity and its environment.

<sup>13</sup> ISA 570 (Revised), Going Concern.

<sup>14</sup> ISA 520 Analytical Procedures.

<sup>15</sup> ISA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Accounting.

<sup>16</sup> ISA 330 The Auditor's Responses to Assessed Risks.

*Obtaining a reasonable amount of certainty means that the company auditor must obtain appropriate audit information in order to reduce audit risk (the risk that the auditor may issue an incorrect opinion if the financial statements contain a material misstatement) to an acceptably low level.*

**As it did during the 2021 quality assurance review campaign<sup>17</sup>, the BAOB observed during its 2022 quality assurance reviews that one of the most frequent infringements (20,79 %) in audit engagements concerns the auditor's mandatory risk assessment.**

ISA 315 addresses the auditor's responsibility to identify and assess the risks of material misstatement in the financial statements by obtaining an understanding of the entity and its environment, including its internal management.

The auditor's objective is to identify and assess the risks of a material misstatement, due to fraud or error, at financial statement and assertion levels by obtaining an understanding of the entity and its environment, including its internal management thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement.

In the category of these risk assessments, the greatest number of infringements in the audit engagements of non-PIE auditors that were observed by the BAOB concerned:

- ISA 315.6 on the extent of risk assessments;
- ISA 315.21 on the requisite understanding of the entity's system of internal control, and more particularly of the way in which the entity has responded to risks arising from the use of IT; and
- ISA 315.12 and 13 on obtaining an understanding of the internal management procedures by assessing the structure of those procedures and determining whether they have been implemented, by performing procedures in addition to inquiries of the entity's personnel.

The BAOB's observations indicate that the audit file did not contain any, or only insufficient, audit documentation to demonstrate that the auditor had paid particular attention to these components of internal management.

The importance of these risk assessment activities should not be underestimated. Obtaining an understanding of the entity and its environment is an ongoing, dynamic process of gathering, updating and analysing information throughout the entire audit. That understanding constitutes a frame of reference in which the auditor plans the audit and exercises his or her professional judgment throughout the audit.

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<sup>17</sup> Quality assurance reviews in 2021 at non-PIE auditors (campaign launched in 2021 and completed in H1 2022). See also the BAOB's Insights dated 29 November 2022, titled 'Highlights of the observations during the 2021 quality reviews at non-PIE auditors', available on [the BAOB's website](#).



***A number of effective initiatives and good practices observed by the BAOB focus on improving and completing the audit documentation about the understanding obtained by the auditor.***

*The audit documentation must include all elements relevant to the understanding obtained in each aspect of the entity and its environment set out in ISA 315.11, and each component of the internal management system specified in ISA 315.14-24.*

*This also applies to smaller audit firms. The most important consideration is whether the understanding obtained is sufficient to meet the objective described in ISA 315. The understanding obtained is to be documented in the audit file.*

**The third largest category of infringements that the BAOB observed during its 2022 quality assurance review of non-PIE files comprised, on the one hand, infringements relating to pre-audit activities, planning of the audit and the determination of materiality (8,91 %) and, on the other hand, infringements relating to reporting (8,91 %).**

The BAOB made a number of different observations.

As regards the pre-audit activities, the BAOB noted, for example, that auditors did not check for compliance with the one-to-one rule<sup>18</sup>. It also noted that not all required employees always signed the statement of independence for the entity under review.

In terms of audit planning, the BAOB noted that the auditor's audit programme did not always include the nature, timing and extent of the audit procedures.

One of the auditor's objectives is to apply the concept of materiality appropriately to the planning and conduct of the audit. The audit file must contain not only the level of materiality, but must also explain the factors that were taken into consideration in determining it.

Infringements relating to the reporting that the BAOB observed had to do mostly with the failure to mention breaches of the CCA in the second part of the auditor's report. If auditors mention the breach(es), they make shareholders and other stakeholders of the audited entity aware of them<sup>19</sup>. This can be useful information, for example, for shareholders who have to vote on discharging the directors of their responsibility.

<sup>18</sup> Article 3:64, § 3 of the CCA.

<sup>19</sup> In the event that the auditor's report is published along with the annual financial statements.

#### 4. Infringements relating to anti-money laundering obligations

In the context of anti-money laundering and combating the financing of terrorism (hereafter: “AML/CFT”), the BAOB looked at both the organizational structure and the implementation of audit procedures in a select number of audit engagements.

The figure below shows the categories of anti-money laundering obligations in which the BAOB observed infringements in non-PIE files in the course of its 2022 quality assurance review campaign.



Figure 3: Infringements of anti-money laundering obligations at non-PIE auditors

#### **Top 3 infringements of AML/CFT obligations**

- 1. Undated or late individual assessment of the ML/FT risks**
- 2. Failure to implement the obligation of due diligence**
- 3. Absence of an up-to-date overall risk assessment and lack of searches on Politically Exposed Persons**

As was the case during the 2021 quality assurance review campaign, the most frequent infringement relating to AML/CFT obligations observed by the BAOB concerned the individual assessment of ML/FT risks. It accounts for almost half (47,62 %) of the infringements identified.

The auditor is required to conduct an individual risk assessment for each client and to do so before the start of their business relationship (Article 34, § 1 of the AML/CFT Law<sup>20</sup>). The aim is to identify and assess the risks associated with the client, taking into account the particular characteristics of the client and of the business relationship or of the transaction concerned.

The BAOB noted several times that the individual risk assessment was not conducted in a timely manner, i.e. at latest at the point when the business relationship is established or the occasional transaction is carried out. It also noted that in some cases the risk assessment was undated, as a result of which the auditor in question could not demonstrate when the assessment was prepared.

In order to address this observation, the BAOB drew up its AML Recommendation of 5 October 2023 on the time when the individual ML/FT risk assessment must be conducted. This AML Recommendation is available on its website<sup>21</sup>.



*The individual risk assessment of the client must take place before the start of the business relationship.*

*In the case of an audit mandate, the BAOB considers the appointment by the general meeting as the point when the business relationship is established.*

*Along the same lines, the moment when the business relationship is established for the conduct of another statutory engagement is the appointment of the auditor by the competent governing body, in other words, at the time of the signing of the engagement letter. The same applies to other types of tasks, such as bookkeeping, which the auditor may carry out on the basis of his or her registration in the public register and for which he or she is thus subject to the AML Law.*

**In almost one quarter (19,05 %) of the infringements of the AML/CFT obligations, the BAOB noted that the obligations of due diligence had been infringed.**

This category includes cases, for example, where the auditor does not have complete and up-to-date procedures – or does not implement them – for enhanced due diligence for a business relationship or occasional transaction where the client, agent and/or ultimate beneficial owner is based in a third country with a high risk level.

<sup>20</sup> Law of 18 September 2017 on the prevention of money laundering and terrorist financing and on the restriction of the use of cash (hereafter: the “AML Law”).

<sup>21</sup> AML Recommendation of the Belgian Audit Oversight Board of 5 October 2023, ‘Time of the identification and verification of the identity of the client and of the client’s beneficial owners and agents’, available on [the website of the BAOB](#).

Another infringement was that when identifying the client and verifying his or her identity, the auditor did not link the appropriate due diligence measures to the identified risk level.



*As regards the identification and verification of the client's identity, the auditor must adapt the obligation of due diligence in accordance with the risk level associated with the client and with the business relationship or the transaction.*

*Simplified measures<sup>22</sup> are appropriate for a low ML/FT risk, and enhanced measures<sup>23</sup> for a high ML/FT risk, such as a client who is resident of a geographical region with a high risk level or with risk features linked to products, services, transactions or supply channels.*

**The third most frequent infringement (14,29 %) of the AML/CFT obligations observed by the BAOB relates, on the one hand, to the obligation to conduct and regularly update an overall risk assessment and, on the other hand, to the obligations in respect of a Politically Exposed Person (PEP)<sup>24</sup>.**

As regards the infringements relating to the conduct of an overall risk assessment, the BAOB noted that in some cases the auditor had not conducted a complete overall risk assessment or had not updated it.

<sup>22</sup> If the individual risk assessment shows that the risk associated with the client and with the business relationship or transaction is low, the obliged entity may reduce the amount of information it collects in comparison with the information listed in Article 26, § 2 of the AML Law. The information collected must, however, remain sufficient to make it possible to distinguish with reasonable certainty the person concerned from any other person.

<sup>23</sup> If the individual risk assessment shows that the risk associated with the client and with the business relationship or with the transaction is high, the obliged entity must pay particular attention to ensure that the information it collects pursuant to Article 26, § 2 of the AML Law enables it to conclusively distinguish the person concerned from any other person. If necessary, it will collect additional information for this purpose.

<sup>24</sup> A Politically Exposed Person is defined in Article 4, 28° of the AML Law.



*The overall risk assessment is complete only if it takes into account the variables set out in Annexes I and III of the AML Law. The BAOB developed the guide 'My overall risk assessment'<sup>25</sup> to help auditors draw up their overall risk assessment. The overall risk assessment should be updated whenever an event occurs that could have a significant impact on one or more risks. The AMLCO<sup>26</sup> should verify at least annually whether the overall risk assessment is still up to date.*

*A good practice in terms of documenting the updating consists in providing a permanent field in which to report the date when the overall risk assessment was conducted and revised.*

As regards the obligation to identify and verify the identity of Politically Exposed Persons (PEP), the BOAB noted several times that the auditor neglected to take reasonable measures to determine whether a client or a client's agent or ultimate beneficial owner is a PEP, the family member of a PEP or a person known as a close associate of a PEP.



*It is not sufficient to carry out the identification of a PEP on the basis of 'general knowledge' without using available databases or other available information.*

*The auditor must document his or her searches in the audit file, including in cases where the search did not yield any results.*

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<sup>25</sup> The guide 'My overall risk assessment' is available on the website of the BAOB (available in [Dutch](#) and [French](#) only).

<sup>26</sup> Anti-money laundering compliance officer: the person charged with the tasks referred to in Article 9, § 2 of the AML Law.