

2023 ANNUAL REPORT OF THE BELGIAN AUDIT OVERSIGHT BOARD

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WORD FROM THE CHAIR

A strong oversight authority continually strengthens the profession in the public interest.

As evidenced by the unremitting work of the Belgian Audit Oversight Board (BAOB), supported by the significant efforts of the Secretariat-General and the inspectors working on behalf of the BAOB.

First of all in 2023, through the meaningful and open dialogue with the sector and an improved preventive, risk-based and proportionate approach.

This is bearing fruit in an otherwise difficult market environment marked by pressure on human resources. The BAOB uses all the available resources in its toolbox to take action against registered auditors who fail to realise that poor audit quality and non-compliant behaviour erode trust in all practitioners.

And today in 2024, by guiding the profession towards compliance with the new ISQM standard, which introduces dynamic risk management for the organisational set-up of audit firms.

As an oversight authority, the BAOB aims to capitalise on the excellent framework provided by the IRE-IBR and wants to gain insight into and identify best practices to further improve audit quality based on this new approach. It wants to achieve this by being open to sector insights and experiences.

Yet without showing any patience for those who make no effort.

As well as in the future. The profession is the ideal societal partner to provide assurance regarding non-financial information.

Our oversight will make a difference in this respect as well.

A strong oversight authority increases the trust of all stakeholders.

As an independent oversight authority for audit quality and anti-money laundering provisions, we work tirelessly to continually enhance the ecosystem for audit quality, integrity and increased trust.

In particular, the trust of investors, credit providers and stakeholders in the quality and reliability of the information audited by registered auditors.

Finally, a word of thanks to all those who actively contribute to our activities and ensure the high-quality practice of the profession.

We thank you for your interest and efforts.

Bénédicte Vessié
Chair



2 THE SECTOR IN 2023 IN FIGURES

The sector in figures in 2023

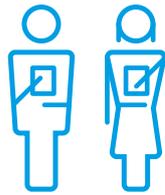


874
active
registered auditors

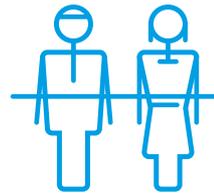


700
active
audit firms

Active and inactive registered auditors on 31 December 2023



83%
active
registered auditors



17%
inactive
registered auditors

French-speaking and Dutch-speaking registered auditors on 31 December 2023



33%
French-speaking
registered auditors



67%
Dutch-speaking
registered auditors

FIGURE 1 – Distribution of registered auditors by province

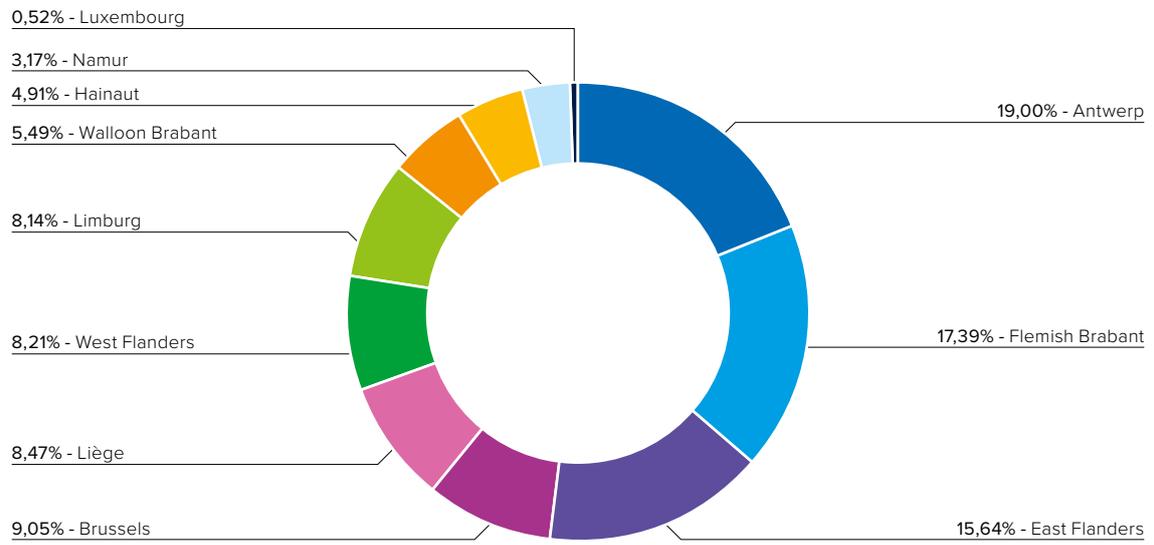


FIGURE 2 – Distribution of the headquarters of audited companies by province

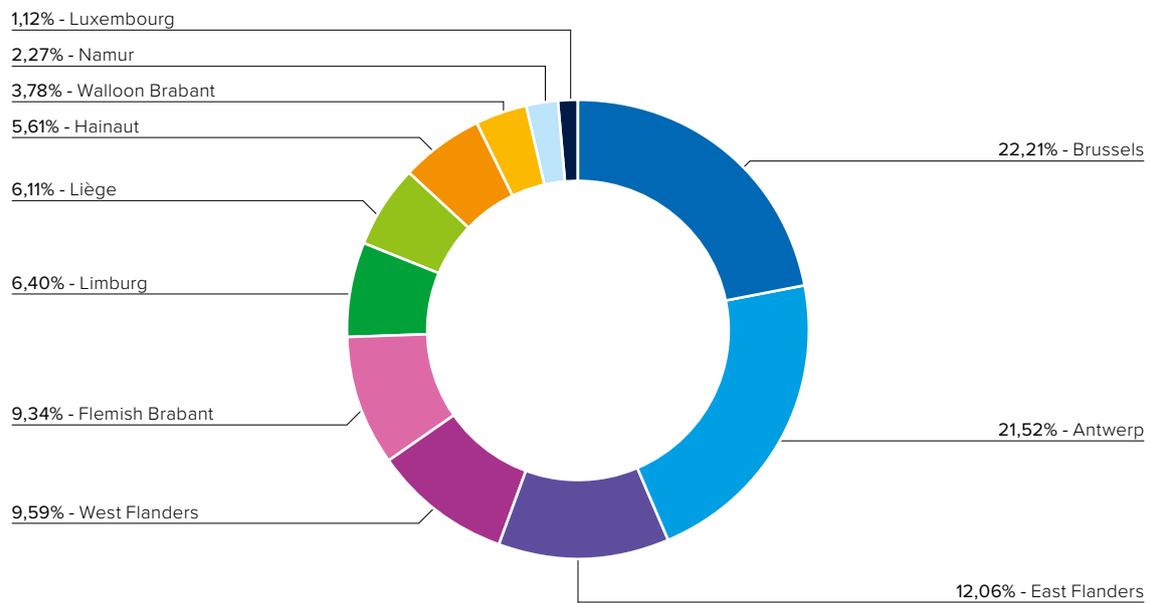
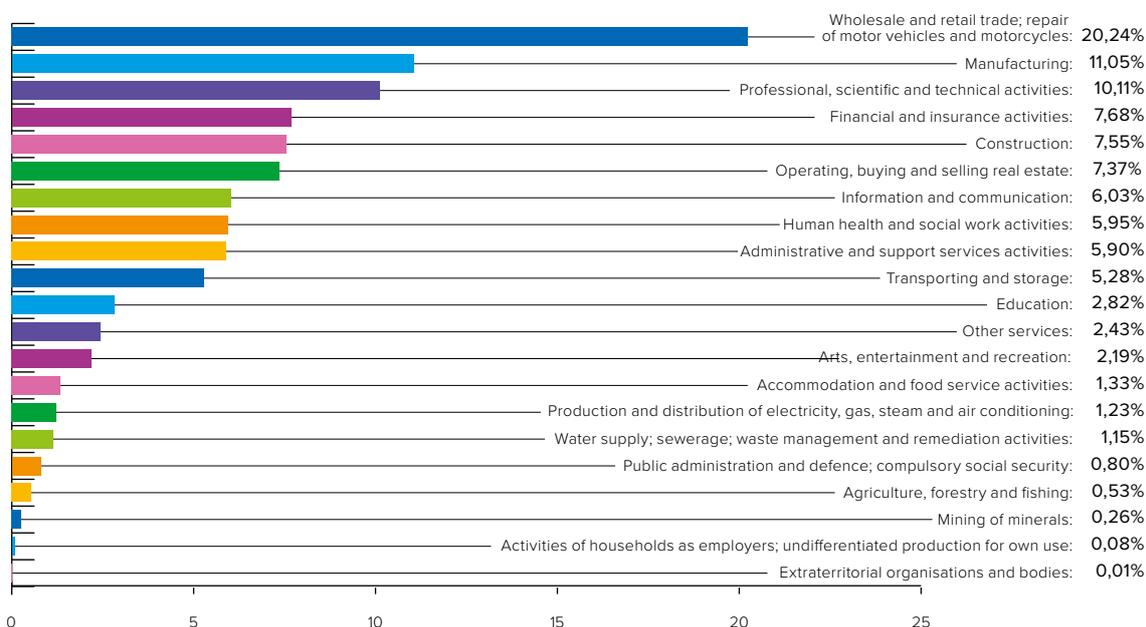


FIGURE 3 – Distribution of reviewed audit engagements performed under the statutory auditor’s mandate by sector



(based on NACE codes as entered by the registered auditors in the Auditors Annual Cartography)

Registered auditors and audit firms performing statutory audit engagements at PIEs on 31 December 2023 (in alphabetical order)

- BDO Bedrijfsrevisoren - Réviseurs d’entreprises (B00023)
- Callens, Vandelanotte & Theunissen (B00003)
- Deloitte Bedrijfsrevisoren - Réviseurs d’entreprises (B00025)
- Ernst & Young Bedrijfsrevisoren - Réviseurs d’entreprises (B00160)*
- KPMG Bedrijfsrevisoren - Réviseurs d’entreprises (B00001)*
- Luc Callaert (B00342)
- Mazars Réviseurs d’entreprises - Bedrijfsrevisoren (B00021)
- PricewaterhouseCoopers Bedrijfsrevisoren - Réviseurs d’entreprises (B00009)*
- RSM Réviseurs d’entreprises - Bedrijfsrevisoren (B00033)

* Firms that received more than 15% of their total fees for performing the statutory audit of annual financial statements of PIEs in Belgium during the previous calendar year.

This list relies on the most recent data reported by registered auditors and audit firms to the BAOB in the Auditors Annual Cartography 2023.

TABLE 1 – Professional activities of registered auditors in 2023 and 2022

	PIE auditors		Non-PIE auditors		Total	
	2023	2022	2023	2022	2023	2022
Total of all revenues (EUR 1.000)	547.166	473.651	198.852	177.761	746.018	651.411
Number of statutory audit engagements related to annual financial statements active on 31/12 ¹	14.360	14.720	14.102	13.190	28.462	27.910
Revenues from statutory audit engagements related to annual financial statements ² (EUR 1.000)	384.263	319.530	113.548	98.600	497.811	418.130
Contribution of statutory audit engagements related to annual financial statements to total revenues (%)	70,23%	67,46%	57,10%	55,47%	66,73%	64,19%
Revenues from other statutory audit engagements ³ (EUR 1.000)	14.101	18.832	25.310	21.472	39.411	40.304
Contribution of other statutory audit engagements to total revenues (%)	2,58%	3,98%	12,73%	12,08%	5,28%	6,19%
Revenues from other audit engagements related to financial reporting ⁴ (EUR 1.000)	74.227	63.421	20.198	15.481	94.425	78.902
Contribution of other audit engagements related to financial reporting to total revenues (%)	13,57%	13,39%	10,16%	8,71%	12,66%	12,11%
Revenues from non-audit engagements ⁵ (EUR 1.000)	74.574	71.867	39.797	42.208	114.371	114.075
Contribution of non-audit engagements to total revenues (%)	13,62%	15,17%	20,01%	23,74%	15,33%	17,51%

1. The BAOB takes into account the number of active mandates on 31 December 2023 to take the continuation of mandates from one registered auditor to another into consideration. At present, the quality of the data entered by the registered auditors regarding joint audit entities made up of multiple statutory auditors is insufficient to eliminate the double counting that arises due to the formation of such joint audit entities comprising two or more registered auditors from different audit firms.
2. The statutory audit engagements relating to the annual financial statements, including the audit of the consolidation bundle, delivering a comfort letter, issuing a report in the context of a prospectus, performing an audit or an interim review and other engagements that are a natural extension of the audit engagement.
3. The other engagements of a registered auditor as laid down in the Companies and Associations Code (CAC) (relating to contributions in kind, quasi-contributions, changes in the legal form of companies, mergers and demergers, proposals for dissolution of a company, payment of an interim dividend, changes in a company's corporate objective, modifications of the rights attached to classes of shares or profit-sharing certificates, issuance of shares below, above or at a fraction of the value of existing shares of the same class with or without issuance premium, issuance of convertible bonds or subscription rights, and limitation or withdrawal of the right of pre-emption).
4. The engagements of a registered auditor within an agreed framework, based on an audit file, which give rise to a written and expert opinion and which do not fall under either Category 1 or 2.
5. Non-audit engagements should be broken down into three categories: those related to the accounting of an entity, those related to the provision of tax services, and consultancy assignments and other professional activities (other than appraisals as a court-appointed expert, arbitration, valuation of entities, due diligence and new assurance services (websites, environment, etc.)).

Interpretation of the figures:

The above-mentioned data have been taken from the figures reported by the registered auditors in the Auditors Annual Cartography.

The Auditors Annual Cartography is the annual survey conducted by the BAOB within the sector at the end of each calendar year for the purpose of collecting relevant data pertaining to the past calendar year. This is an oversight tool exclusively managed and used by the BAOB that allows it to gain insight into the activities of the sector, providing important information for regularly updating the BAOB's risk-based oversight activities. Therefore, it is extremely important that the Auditors Annual Cartography is completed by the sector correctly and promptly. In the past, administrative sanctions have been imposed by the FSMA Sanctions Committee to curb repeated breaches.

Registered auditors can enter their data in the Auditors Annual Cartography on the BAOB website, and after completion, they receive an overview of the submitted data. In this way, each registered auditor can submit these data to the IRE-IBR to the extent necessary and useful for the IRE-IBR to calculate the contribution owed to it.

Therefore, in its annual report, the BAOB publishes the aggregated data that will help the public gain an understanding of the sector based on the declarations submitted by the registered auditors in this Auditors Annual Cartography. As a result, these data may potentially contain certain discrepancies as compared to the sector data found by the reader in other sources.

Finally, prudence is necessary when making comparisons based on the information displayed in the above table, since some registered auditors do not analyse their fees in this manner but have made an informed estimate of the figures. Moreover, registered auditors may divide their revenues from audit and non-audit engagements somewhat differently over time, which may affect the year-to-year comparability. Apart from this, the above table does not take into consideration registered auditors who are natural persons and audit firms that have been late in submitting their Auditors Annual Cartography. Neither does the table take into consideration revenues from activities subcontracted to other registered auditors.

TABLE 2 – PIE engagements in 2023 and 2022

	TOTAL	
	2023	2022
Total of all revenues (EUR 1.000)	547.166	473.651
Number of PIE engagements active on 31/12	235	250
Revenues from PIE engagements (EUR 1.000)	70.860	55.323
Contribution of PIE engagements to total revenues (%)	12,95%	11,68%

FIGURE 4 – Revenues from the professional activity of the registered auditor (in million EUR)

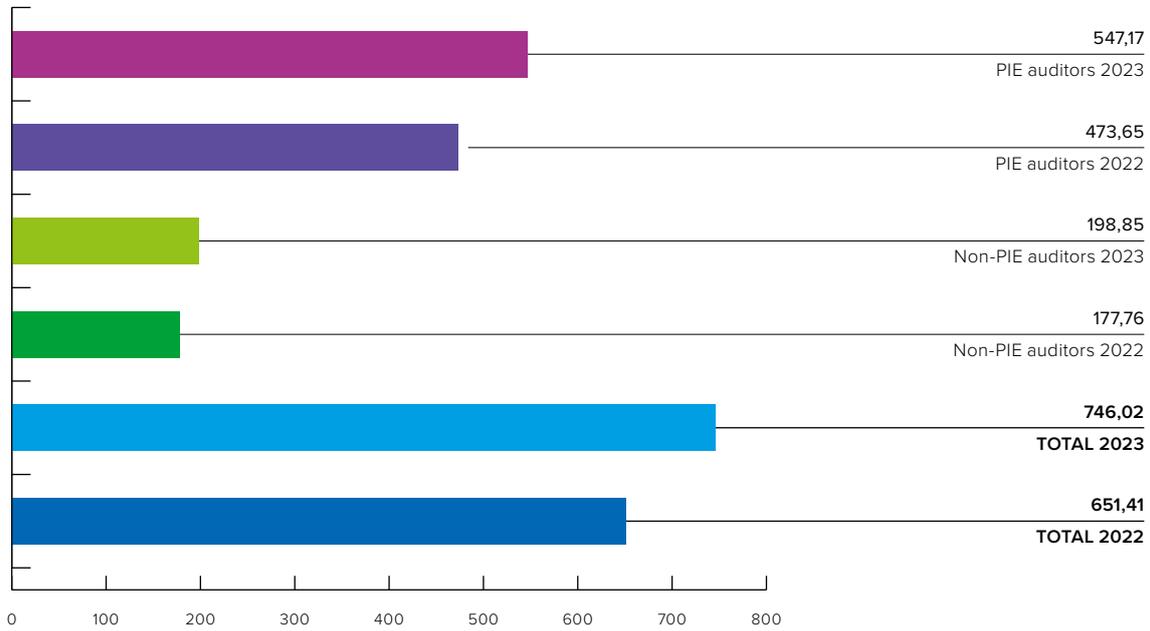
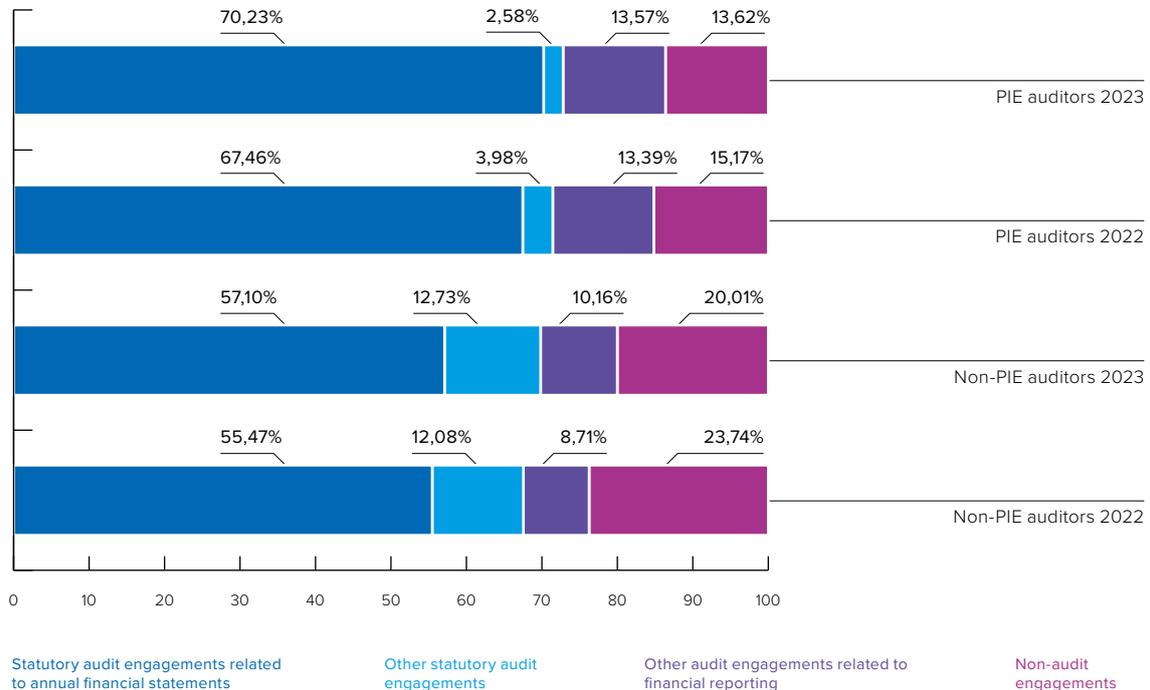


FIGURE 5 – Contribution of audit and non-audit engagements to sector revenues (%)



On average, the revenues of registered auditors and audit firms are composed primarily of revenues from audit engagements. In 2023, this constituted 86,37% of the total revenues in the PIE segment and 79,99% of the total revenues in the non-PIE segment. This shows that, on average, audit engagements constitute the main activity within the sector.



3 HIGHLIGHTS OF THE OVERSIGHT EXERCISED BY THE BAOB IN 2023



The BAOB Committee held 10 **meetings** and expressed an opinion in 32 written proceedings.



The BAOB published 3 anti-money laundering (**AML**) **recommendations** on its website to inform and raise awareness in the sector:

- AML recommendation of 7 September 2023 on trainee auditors;
 - AML recommendation of 5 October 2023 on the time of the identification and the verification of the identity;
 - AML recommendation of 9 November 2023 on money laundering typologies and atypical transactions.
-



The BAOB received 28 **complaints**, of which 23 were admissible.

The BAOB also received 12 whistleblower reports, of which only 1 was admissible.



The BAOB engaged in **dialogue** with all PIE audit firms and a representative sample of non-PIE audit firms in order to enhance its understanding of the challenges in the sector, and published its findings.

Registered auditors and the entities audited by them jointly submitted 550 **EARLY END reports** for the early termination of the statutory auditor's mandate.



The most frequently invoked legal reason for this was the rotation of the statutory auditor at the group level.

In 4 files, the BAOB informed the public prosecutor about indications of possible criminal breaches committed by registered auditors. This included breaches such as the preparation of documents that did not conform to reality.



The BAOB also referred 9 **investigation files** to the Sanctions Committee of the Financial Services and Markets Authority (FSMA).

In 2023, the BAOB decided to impose **compliance deadlines** in 2 files involving 3 registered auditors. Given the urgency of the circumstances, it decided to accompany these compliance deadlines with a temporary ban on the performance of all activities and to suspend the registration of these auditors in the public register.



On 6 October 2023, the FSMA and the BAOB welcomed European stakeholders to **round-table discussions** as part of the consultation on the draft assurance standard for reporting non-financial information of the International Auditing and Assurance Standards Board (IAASB).





4 INSTITUTIONAL FRAMEWORK

4.1.	The BAOB as an oversight authority	20
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4.1. The BAOB as an oversight authority

4.1.1. The BAOB performs its missions in the public interest

Registered auditors (also referred to as ‘auditors’ hereafter) play an important role in ensuring that financial reporting provides a true and fair view of a company. The registered auditor thus adds significantly to the credibility of the published financial statements.

The BAOB is independent of the professional body of registered auditors and performs its missions exclusively in the public interest. It ensures that audit engagements are performed with a focus on quality and in an objective and independent manner. In this way, the BAOB contributes to strengthening public trust in companies’ financial information.

4.1.2. The BAOB monitors compliance with the provisions of the applicable legislative and regulatory framework

The oversight exercised by the BAOB is primarily based on the Law of 7 December 2016 transposing Directive 2006/43/EC.

The BAOB also bases its oversight activities on the International Standards on Auditing (ISA)¹, i.e. the international audit standards, and related standards, insofar as they are relevant to statutory audits of financial statements².

On 17 November 2023, the Minister of the Economy approved the standard implementing International Standards on Quality Management 1 and 2 (ISQM 1 and 2)³. These international standards are intended to further improve and enhance audit quality, and apply to all registered auditors. In late 2023, the BAOB published⁴ an article on its website about the effective date of this standard. ISQC 1, the predecessor of ISQM, remains in force for audit engagements for which the planning phase was concluded before the entry into force of ISQM 1 and 2.

The BAOB performs its oversight on the basis of the applicable legal provisions, the ISAs and ISQM 1 and 2 as well as on the basis of the professional standards approved by the Minister of the Economy on the proposal of the IRE-IBR and on the advice of the CSPE-HREB.

In particular, the BAOB bears ultimate responsibility for the oversight of::

- the granting of the status of registered auditor, and the entry and registration in the public register, as well as the maintenance and updating of the public register;
- continuing professional development;
- quality management systems; and
- compliance with the anti-money laundering legislation.

¹ In Belgium, the ISAs have been applicable since the approval by the CSPE-HREB and the Minister of the Economy of the standard of 10 November 2009 on the application of the ISAs in Belgium, and more specifically, the audit of financial statements for financial years ending 15 December 2014 or later. Pursuant to Article 31, § 4, of the Law of 7 December 2016, these standards are binding on registered auditors.

² Article 2.11 of Directive 2006/43/EC.

³ Published in the Belgian Official Journal on 27 November 2023.

⁴ Insight of the BAOB of 14 December 2023, ‘Entry into force of the International Standards for Quality Management (ISQM)’, available on https://www.ctr-csr.be/sites/default/files/media/files/2023-12/ctr_isqm_202312_en.pdf.

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

- granting and withdrawing the status of registered auditor;
- entry and registration in the public register, as well as the maintenance and updating of the public register; and
- organising continuing professional development.

Ultimate responsibility for the oversight and performance of the tasks delegated to the IRE-IBR lies with the BAOB.

4.2. Organisation

4.2.1. The BAOB is an independent body with legal personality

The BAOB consists of a Committee and a Secretariat-General. The Committee is the decision-making body of the BAOB. It has six members and its operation is partly governed by the BAOB's internal regulations⁵. The Chair of the Committee, Ms Bénédicte Vessié, represents the BAOB in its relationships with third parties and in court.

The Committee is composed as follows:



Bénédicte Vessié
Committee Chair and former registered auditor



Sadi Podevijn
Expert who is not a former registered auditor



Vincent Magnée
Member appointed by the NBB (with effect from 23 January 2023)



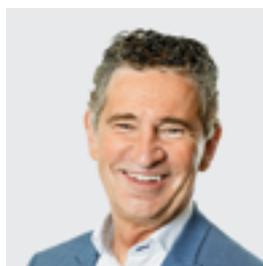
Antoine Van Cauwenberge
Member appointed by the FSMA



Vincent De Bock
Member appointed by the FSMA



Jo Swyngedouw
Member appointed by the NBB



Jean Hilgers
Member appointed by the NBB (until 22 January 2023)

⁵ The internal regulations are available on <https://www.ctr-csr.be/fr/ctr-csr/reglements-interne> (French and Dutch only).

Mr Vincent Magnée replaces Mr Jean Hilgers as a Committee member appointed by the NBB with effect from 23 January 2023. The Committee would like to thank Mr Jean Hilgers for his unwavering commitment in the early years of the BAOB's existence. His knowledge, expertise and experience contributed greatly to the high standard of the Committee's decisions in the first years after its establishment.



Ann De Roeck
Secretary-General

The Secretary-General, Ms Ann De Roeck, is in charge of the operational management of the BAOB. For this purpose, she has been delegated certain representation and decision-making powers for the BAOB Committee⁶. She prepares and implements the Committee's decisions. She also conducts investigations for audit files which the BAOB decides to refer to the Sanctions Committee of the FSMA.

The FSMA acts as the BAOB's Secretariat-General. The Secretariat-General of the BAOB may call on the FSMA for administrative, operational and logistical support. The memorandum of understanding between the FSMA and the BAOB of 18 October 2017⁷ governs relations between the two independent bodies.

The above-mentioned memorandum of understanding also sets out the procedures for applying the budgetary and financial framework established by the Law of 7 December 2016. The operating costs of the BAOB are part of the total budget of the FSMA. Ultimately, the operating costs of the BAOB are covered by the sector through the contributions of the auditors and audit firms registered in Belgium.

The BAOB's budget and cost estimate are prepared under a strict procedure. This procedure needs to be approved by the BAOB and by the Supervisory Board and the Management Committee of the FSMA, and it requires a positive opinion of the Audit Committee of the FSMA.

The Royal Decree of 25 December 2016 on the maximum budgetary limit and on the coverage of the operating costs for the public oversight of registered auditors provides for a maximum budgetary limit of EUR 2,8 million per year, adjusted in line with salary scales and the evolution of the index. The IRE-IBR collects the contributions from the sector and pays an overall amount to the FSMA each year. The maximum contribution for 2023 amounted to EUR 3.536.329. The BAOB's expenses for 2023 amounted to EUR 3.060.191⁸.

⁶ The delegation decree is available on <https://www.ctr-csr.be/fr/ctr-csr/reglements-internes> (French and Dutch only).

⁷ The memorandum of understanding governing relations between the FSMA and the BAOB is available on https://www.ctr-csr.be/sites/default/files/legacy/content/MoU/2017-10-18_protocole_ctrcsr_fsma.pdf (French and Dutch only).

⁸ The BAOB has unfilled vacancies.

4.3. Professional secrecy

The BAOB is bound by the obligation of professional secrecy subject to sanctions under criminal law. This means that the BAOB may not disclose any confidential information it obtains during the performance of its missions.

The BAOB's professional secrecy is governed by Articles 44 and 45 of the Law of 7 December 2016.

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

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

4.4. National cooperation

The BAOB underlines the importance of a high-quality cooperation with national and international bodies.

The BAOB works closely with the **Financial Services and Markets Authority (FSMA)**. The relations between the FSMA and the BAOB are governed by the memorandum of understanding of 18 October 2017⁹. It provides for example that the FSMA shall act as the Secretariat-General of the BAOB and that the BAOB – as provided for by law – shall call on the Central Inspection Team of the FSMA to carry out the quality assurance reviews of PIE auditors and audit firms. The BAOB also works closely with the FSMA for all IT and technology support.

In the context of its oversight, the BAOB may decide to refer a matter to the **Sanctions Committee of the FSMA**. In that case, the BAOB initiates proceedings which may give rise to the imposition of administrative measures, ranging from a warning to the withdrawal of the status of registered auditor, and the imposition of pecuniary sanctions¹⁰.

⁹ The memorandum of understanding governing relations between the FSMA and the BAOB is available on https://www.ctr-csr.be/sites/default/files/legacy/content/MoU/2017-10-18_protocole_ctrcsr_fsma.pdf (French and Dutch only).

¹⁰ The administrative measures and pecuniary sanctions that the Sanctions Committee may impose are set out in Article 59 of the Law of 7 December 2016.

The composition of the Sanctions Committee and the duration of the members' terms of office are as follows:



Michel Rozie, chairman

Honorary First President of the Antwerp Court of Appeal, member of the Sanctions Committee in the capacity of a magistrate not serving as a justice at the Court of Cassation or at the Brussels Court of Appeal

(end of mandate: 15 September 2027)



Martine Castin

Honorary First President of the Antwerp Court of Appeal, member of the Sanctions Committee in the capacity of a magistrate not serving as a justice at the Court of Cassation or at the Brussels Court of Appeal

(end of mandate: 15 September 2027¹¹)



Sofie Cools

Member of the Sanctions Committee with appropriate expertise in financial services and markets

(end of mandate: 16 December 2024)



Erwin Francis

Justice at the Court of Cassation, member of the Sanctions Committee on the recommendation of the First President of the Court of Cassation

(end of mandate: 15 September 2027)



Guy Keutgen

Member of the Sanctions Committee with appropriate expertise in financial services and markets

(end of mandate: 15 September 2027)



Jean-Philippe Lebeau

President of the Hainaut Commercial Court, member of the Sanctions Committee in the capacity of magistrate not serving as a justice at the Court of Cassation or at the Brussels Court of Appeal

(end of mandate: 16 December 2024)



Christine Matray

Honorary Justice to the Court of Cassation, member of the Sanctions Committee on the recommendation of the First President of the Court of Cassation

(end of mandate: 16 December 2024)



Pierre Nicaise

Member of the Sanctions Committee with appropriate expertise in financial services and markets

(end of mandate: 16 December 2024)



Philippe Quertainmont

Honorary State Councillor at the Council of State, member of the Sanctions Committee on the recommendation of the First President of the Council of State

(end of mandate: 15 September 2027)



Reinhard Steenot

Member of the Sanctions Committee with appropriate expertise in financial services and markets

(end of mandate: 15 September 2027)



Kristof Stouthuysen

Member of the Sanctions Committee with appropriate expertise in the statutory audit of financial statements

(end of mandate: 15 September 2027)



Marnix Van Damme

Chamber president at the Council of State, member of the Sanctions Committee on the recommendation of the First President of the Council of State

(end of mandate: 16 December 2024)

¹¹ Ms Martine Castin's term of office was renewed by Royal Decree of 21 May 2023 (BOJ of 25 August 2023). Ms Castin's term of office started at the plenary session of 29 November 2023.

The BAOB works closely with the **National Bank of Belgium (NBB)**. The cooperation in the performance of the respective missions and the procedures for the exchange of information are governed by the memorandum of understanding of 14 June 2019¹².

Its consultations with the **Institute of Registered Auditors (IRE-IBR)** in 2023 covered the evaluation of the annual report of the IRE-IBR 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 the registered auditors and the recurrent problems in the BAOB's audit files in addition to other topics such as the opportunities and challenges of the profession. The BAOB also provided feedback to the IRE-IBR on the results of reviews of the Auditors Annual Cartography 2022 conducted at a number of PIE audit firms with respect to the public register. The BAOB also held discussions with the IRE-IBR with a view to assessing the practical organisation and security of the examinations giving access to the profession of registered auditor. Managing access to this profession is a task conferred by law on the IRE-IBR but for which the BAOB takes ultimate responsibility. Finally, the BAOB terminated the temporary mandate it had granted to the IRE-IBR, at the time of its inception, to be present during searches conducted at registered auditors' premises with a view to safeguarding the professional secrecy of the registered auditor. The Secretariat-General of the BAOB will henceforth exercise this power in line with its statutory powers.

In terms of national dialogue, the BAOB regularly exchanges views with the **High Council for Economic Professions (CSPE-HREB)**. The CSPE-HREB will request the BAOB's advice on draft standards prepared by the IRE-IBR, the BAOB will request advice on other matters relating to the standards, or there may be an exchange of views on developments in the sector. In accordance with Article 31, § 1, fourth paragraph of the Law of 7 December 2016, the BAOB may submit its remarks within six weeks of the request sent by the CSPE-HREB.

In 2023, the CSPE-HREB requested the BAOB's advice on various matters relating to standards:

- Draft standard on the application of ISAE 3000 (Revised) and 3400 in Belgium;
- Draft standard on the application of International Standards on Auditing (ISAs) 250 (Revised), 315 (Revised 2019) and 540 (Revised) in Belgium;
- Draft standard on the tasks of the registered auditor towards the works council;
- Draft standard on the verification of compliance of financial statements with the European Single Electronic Format (ESEF).
- Draft standard revising the supplementary standard (revised version of 2020) to the International Standards on Auditing (ISAs) applicable in Belgium.

In the context of the analysis of a draft standard, the BAOB ascertains, inter alia, whether the content of the standard is accessible and foreseeable, so that everyone – and in particular the registered auditor – can correctly apply and understand the standard and so that the BAOB can take enforcement measures where appropriate.

The **consultative assembly for public oversight** of the profession of registered auditors is held annually. The consultative assembly deals with general issues concerning the public oversight of the profession. It is composed of the Chair of the BAOB Committee, two representatives of the BAOB, two representatives of the CSPE-HREB, four representatives of the IRE-IBR and two representatives of the FPS Economy.

¹² The memorandum of understanding governing the cooperation and the exchange of information between the NBB and the BAOB is available on https://www.ctr-csr.be/sites/default/files/legacy/content/MoU/2019-06-14_protocole_ctrcsr_nbb.pdf (French and Dutch only).

The BAOB also maintains its ongoing dialogue with the **General Administration of the Treasury**, the NBB and the FSMA in the context of the fight against money laundering.

Finally, the BAOB also provides technical advice to **Ministers' offices** at their request.

4.5. International cooperation

In its **international cooperation**, the BAOB's primary focus is on monitoring developments in the sector and audit standards, determining audit quality indicators, ensuring a level playing field at the European level, and implementing oversight of cross-border audit firms.

Cooperation among the competent authorities of the European Member States is increasingly contributing to a higher quality of oversight. As a member, the BAOB actively participates in the activities of the **Committee of European Auditing Oversight Bodies (CEAOB)**. Representatives of the BAOB also participate in certain sub-groups and in two of the four bodies established by the CEAOB for the four main European audit networks. Finally, the BAOB organised the meeting of the CEAOB's Inspections and Standards sub-groups in Brussels¹³.

2023 saw the continuation of the joint inspections with the U.S. **Public Company Accounting Oversight Board (PCAOB)**¹⁴ of audit firms acting as statutory auditors for Belgian companies listed on U.S. regulated markets (NYSE, NASDAQ, OTC, etc.). Regular consultations are held with the PCAOB in the context of these joint inspections.

The cooperation agreement is of particular importance in light of the U.S. Holding Foreign Companies Accountable Act (HFCAC). The HFCAC provides for the suspension by the U.S. Securities Exchange Commission of trading in financial instruments of foreign undertakings listed on U.S. stock exchanges or U.S. regulated markets if the PCAOB could not conduct inspections or investigations for three years or more in their home jurisdiction.

Conversely, the BAOB can also call upon the assistance of the PCAOB in examining the quality of the audit services provided by U.S. auditors for Belgian companies whose audits are overseen by the BAOB and the PCAOB, e.g. in the context of the consolidated accounting of international groups.

The exchange of data in compliance with the General Data Protection Regulation (GDPR) is governed by the data protection agreement between the BAOB and the PCAOB¹⁵, which was approved by the Belgian Data Protection Authority on 7 April 2021.

The BAOB was present as a participant and speaker at the 2023 PCAOB International Institute on Audit Regulation's 'New Horizons in Audit Regulation' seminar held in Washington. At this international seminar for oversight authorities, various topics were discussed such as the key regulatory initiatives of the PCAOB, innovations in the PCAOB inspections, links between technology and audit regulations, issues relating to the protection of investors, and various macroeconomic trends relevant to the audit sector.

¹³ News article of the BAOB of 4 October 2023, 'Meeting of the Committee of European Auditing Oversight Bodies', available on <https://www.ctr-csr.be/en/ctr-csr/news/meeting-committee-european-auditing-oversight-bodies>.

¹⁴ On 12 April 2021, the BAOB concluded a cooperation agreement with the PCAOB, which is available on https://www.ctr-csr.be/sites/default/files/legacy/content/CTRCSR/2021_04_ctrcsr_pcaob_protocol.pdf.

¹⁵ The cooperation agreement between the BAOB and the PCAOB is available on https://www.ctr-csr.be/sites/default/files/legacy/content/CTRCSR/2021_04_ctrcsr_pcaob_dpa.pdf.

On 6 October 2023, the FSMA and the BAOB welcomed a large and diverse group of European stakeholders for roundtable discussions on new draft audit standards for sustainability reporting¹⁶. These roundtable discussions were chaired by the IAASB in the context of its consultation on the draft assurance standard on sustainability reporting (ISSA 5000)¹⁷.

The BAOB is also a member of the **International Forum of Independent Audit Regulators (IFIAR)** and participated in the (online) annual meeting of IFIAR and the Enforcement Workshop organised by IFIAR. This allows the BAOB to keep itself informed about the high-level results of international analyses and their trends.

All these forms of European and international cooperation contribute to the uniformity of the oversight process and the effectiveness of the performed reviews.

¹⁶ Press release of the BAOB of 6 October 2023, 'Roundtable discussions on new international audit standard for sustainability assurance held at the FSMA', available on <https://www.ctr-csr.be/en/ctr-csr/news/roundtable-discussions-new-international-audit-standard-sustainability-assurance-held>.

¹⁷ The draft standard '*International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements*' is available on <https://www.iaasb.org/publications/proposed-international-standard-sustainability-assurance-5000-general-requirements-sustainability>.



5 INTERPRETATION OF THE RESULTS

The following guidance applies to interpret the results published by the BAOB in this annual report. This refers both to the results of its quality reviews (Chapter 6) as well as the results of its reviews within the context of combating money laundering and terrorist financing (Chapter 7).

Since the selection of registered auditors changes every year, the results of the oversight are not directly comparable from year to year. Moreover, the annual sample of auditors to be included in the quality review may include a number of those auditors as a result of the targeted selection of auditors that are considered high-risk, which can affect the interpretation of the results.

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

Our inspections also do not aim to examine every aspect of every audit file. The inspection results should not be extrapolated to the performance of other statutory auditor mandates or audit engagements, but should be considered as an indication of how registered auditors approach their potentially high-risk audit engagements.

Finally, it should be noted that the findings of inspectors, whether these inspectors belong to the Central Inspection Team of the FSMA or are appointed by the BAOB, are not binding on the BAOB Committee. For each individual file, the BAOB Committee makes an analysis to determine the findings to be included or excluded from its assessment of the file and the findings for which it thinks a measure is appropriate and/or necessary. This is part of the BAOB Committee's discretionary oversight policy. Therefore, findings that are not the subject of a decision by the BAOB Committee should not be considered as approved by the BAOB Committee.



6 QUALITY REVIEWS

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6.1. Methodology

6.1.1. The BAOB applies a risk-based and network approach to its quality reviews

The BAOB applies a risk-based inspection approach tailored to the complexity of the audits and the public interest involved. Consequently, in its inspection approach, the BAOB distinguishes between, on the one hand, PIE auditors and audit firms that audit one or more PIEs, and on the other hand, non-PIE auditors and audit firms that exclusively audit non-PIEs.

Registered auditors are subjected to a quality review by the BAOB at least every six years, or at least every three years for auditors and 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 CAC¹⁸.

The time period between two quality reviews is determined on the basis of a risk assessment. This risk assessment is based among others, but not exclusively on the following criteria:

- the sector cartography (Auditors Annual Cartography);
- any indications from third parties (press articles, complaints or other oversight authorities); and
- the results of previous quality reviews.

The BAOB conducts the risk assessment annually. Based on this, it selects the auditors and audit firms to be included in the quality review.

If a network of auditors or audit firms has common quality management procedures, the BAOB organises its quality review at the network level. The BAOB particularly emphasises the importance of accurate reporting in this regard. It has been found that auditors do not always correctly state in the Auditors Annual Cartography whether they are part of a network with or without common quality management procedures. It is recommended that members of a network discuss this in advance.

6.1.2. The BAOB's oversight is resolutely based on the proportionality principle

The BAOB exercises its oversight powers taking into account the scale and complexity of the auditor's activities, on the one hand, and the scale and complexity of the business of the audited entity, on the other.

The BAOB Committee decides on how it will follow up on the findings from a quality review. These quality reviews are appropriate and proportionate to the scale and complexity of the activities of the reviewed auditor. However, this does not mean that smaller audit firms are exempt from complying with the applicable legislative and standards framework. Registered auditors are expected to apply the relevant professional standards proportionate to the scale and complexity of the activities of the entity being audited.

The proportionality principle is reflected inter alia in the BAOB's assessment of the organisational requirements of the registered auditor. The BAOB acknowledges that for certain internal procedures, smaller audit firms are not required to provide the same amount of detail as larger firms.

¹⁸ Article 1:26, § 1 of the CAC provides as follows (free translation): "A company along with its subsidiaries or companies forming a consortium are considered to constitute a group of limited size if these companies together, on a consolidated basis, do not exceed more than one of the following criteria:
– annual average number of employees: 250;
– annual turnover excluding value-added tax: EUR 34,000,000;
– balance sheet total: EUR 17,000,000."

However, as required by law and the ISAs, the BAOB does expect smaller firms to adequately document and timely archive their audit procedures when performing their statutory audit engagements. An audit file must be prepared in a consistent and structured manner. Based on the audit file, any experienced auditor with no previous connection with the audit should be able to understand the process of the audit procedures and how the auditor's opinion was reached.

6.1.3. Adversarial debate applies to the performance of quality reviews

Another guiding principle in carrying out quality reviews is adversarial debate. During the quality review, the reviewed auditor may discuss the preliminary findings and conclusions with the inspector.

6.1.4. The BAOB upholds the auditor's opinion

The BAOB respects the auditor's opinion on the financial statements insofar as this opinion was reached in the appropriate manner and the auditor substantiated it with valid arguments. It goes without saying that the auditor takes into account all material risks.

6.2. Themes and frames of reference

6.2.1. Risk-based quality review of material audit quality risks

In 2023, for all auditors that have both PIE and non-PIE clients, the BAOB adopted a holistic approach by performing quality reviews closely aligned to the specific risks inherent to the selected statutory auditor mandates. This allows to review the application of the legal and standards framework in the audit files in order to identify any material audit quality risks.

In selecting a sample of statutory auditor mandates to be reviewed, the BAOB took into account a number of key elements such as:

- audit planning;
- risk assessment and determination of the audit response;
- consolidation;
- materiality threshold;
- performance of the audit procedures with respect to certain identified risks, in particular with regard to going concern, accounting valuations and indications of fraud; and
- archiving and supervision (review of the audit file).

In 2023, when selecting the statutory audit engagements to be reviewed, the BAOB paid particular attention to the impact of economic developments, trends and risks based on the following themes:

- social impact of the company audited by the auditor;
- missions for which exceptionally few audit hours were spent or for which very low fees were charged;
- going concern and bankruptcy;
- accounting valuations;

- sectors and audit clients impacted by the COVID-19 pandemic, inflation and economic uncertainty (manufacturing companies with supply chain problems, bad debts, decrease in number of customers, decreasing profitability partly due to sharply increased costs, significant impairments, financing problems, going concern problems, etc.); and
- highly digitised sectors.

The BAOB considers the quality reviews as long-term review cycles carried out on a recurrent basis. As for the oversight, the BAOB uses its resources for these quality review cycles in a risk-based manner, not only addressing potentially more harmful situations, but also examining new trends and developments.

The BAOB will also supplement its risk-based selections and samples with random samples to guarantee the reliability and representativeness of the review results.

6.2.2. Further development of the risk-based and proportionate approach

In the coming years, the BAOB aims to further develop its risk-based and proportionate approach by continuously honing the segmentation of audit firms based on client type, activity type, turnover and human resources.

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 reviews. The ongoing trend of consolidation means that a number of particularly large firms are forming in the non-PIE segment. From a risk-based perspective, the BAOB expects these large non-PIE audit firms to maintain a high-quality, adequate organisational set-up, as well as to actively manage their continuous efforts to improve audit quality. In the coming years, the BAOB will aim to gradually and in a risk-based manner move towards shorter quality review cycles than the regulatory requirement (at least every six years) for these audit firms.

For smaller audit firms and sole practitioners, the quality review approach remained unchanged in 2023.

6.2.3. Joint inspections with the PCAOB

In 2023, the BAOB also continued its joint inspections with the PCAOB, a practice that was initiated in 2021. These inspections aim to assess the quality of the audit services provided to PIEs as outlined in U.S. legislation. Given the objective pursued by the PCAOB, it is theoretically possible for an audit firm that does not qualify as a PIE audit firm in Belgium to nevertheless be subject to a joint inspection by the BAOB and the PCAOB.

The BAOB conducts these joint inspections in consultation with the PCAOB according to a three-year cycle in line with U.S. legislation, which provides for a review at least every three years. In planning its quality reviews, the BAOB takes into account the PCAOB's planning as much as possible in order to prioritise its joint inspections with the PCAOB. This is in the interest of Belgian companies listed on U.S. regulated markets (NYSE, NASDAQ, OTC, etc.)¹⁹, as the U.S. Holding Foreign Companies Accountable Act (HFCAC) provides for the suspension by the U.S. Securities Exchange Commission of trading in financial instruments of foreign undertakings listed on U.S. stock exchanges or U.S. regulated markets if the PCAOB could not conduct inspections or investigations for three years or more in their home jurisdiction.

¹⁹ The BAOB stresses the importance of joint inspections for Belgian companies listed on U.S. regulated markets in its communication on the negotiations of a cooperation agreement with the PCAOB, as published on its website.

The experience of conducting inspections in cooperation with the PCAOB shows that this involves a comprehensive review 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 is on accurate reporting on U.S. listed companies in compliance with U.S. 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 selection made by the PCAOB and possibly adding some of its own – more Belgian – themes²⁰.

6.3. Quality reviews of PIE auditors

In accordance with Article 52, § 4 of the Law of 7 December 2016, the BAOB is assisted by the Central Inspection Team of the FSMA in carrying out quality reviews of PIE auditors.

Quality reviews of PIE auditors involve a longer period of fieldwork and are therefore mainly carried out sequentially and thus spread over a calendar year and spanning several calendar years. The results of the quality reviews of PIE auditors are included in this report in the year in which the BAOB Committee makes a final decision on the results of the review. As a result, the timing of the reporting on the results of these quality reviews differs from that for non-PIE auditors, for whom the quality reviews follow a set timeline, the findings can be processed in a more or less grouped manner and therefore the results of a full review cycle can be shown.

In 2023, quality reviews were initiated and/or carried out at **five PIE audit firms, of which two were joint inspections with the PCAOB**. At the end of 2023, these quality reviews were in the various stages of performance, reporting and opinion-making.

For **4 PIE audit firms and 22 affiliated auditors performing audits at one or more PIEs**, the BAOB imposed **104 measures** including:

- 10 reprimands;
- 3 compliance deadlines;
- 20 injunctions²¹; and
- 71 recommendations.

6.3.1. Deficiencies relating to the organisational set-up of PIE auditors

The review activities at PIE auditors for which the BAOB imposed measures in 2023 focused on compliance with the regulations on the acceptance and continuance of client relationships and specific engagements (including the relevant aspects related to the AML Law²²) and the internal quality management system of the audit firm.

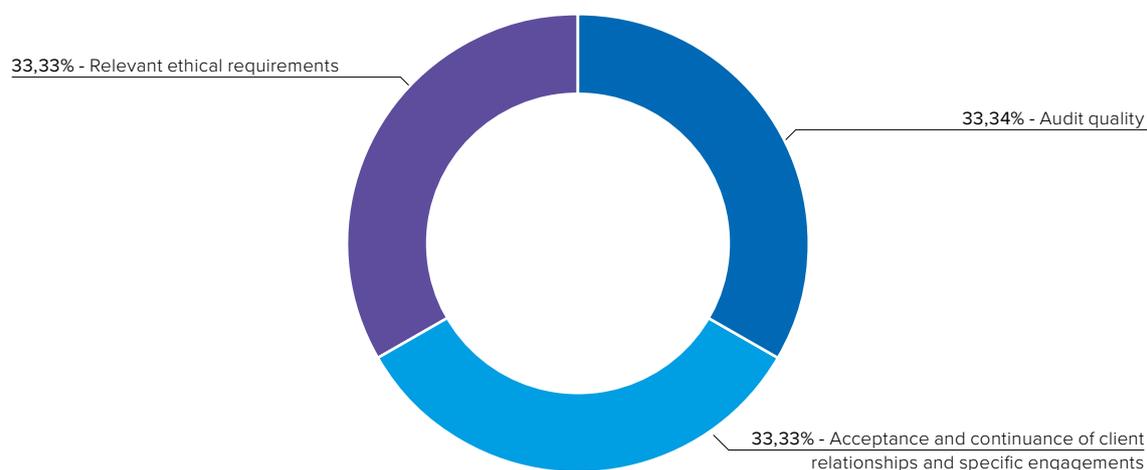
²⁰ It is useful to note that the PCAOB already has a thorough understanding of the internal procedures of the audit firm to be reviewed given that these internal procedures are being driven from the international networks and the PCAOB has experience in inspecting audit firms in multiple countries.

²¹ The BAOB imposes an injunction as a measure under Article 116/2 of the AML Law.

²² See further in this annual report.

The figure below shows the deficiencies relating to the organisational set-up of PIE auditors retained by the BAOB Committee.

FIGURE 6 – Deficiencies relating to the organisational set-up of PIE auditors



Three main deficiencies relating to the organisational set-up of PIE auditors

1. Incomplete or inadequate compliance with internal procedures on audit quality
2. Inadequate compliance with internal procedures on independence
3. Incomplete client acceptance procedures and delayed compliance

33%

A significant proportion of the deficiencies identified relates to **internal procedures aimed at ensuring the audit quality of audit engagements.**

Article 19, § 1, 2° of the Law of 7 December 2016 provides as follows (free translation):

“The audit firm shall have sound administrative and accounting procedures, internal quality control mechanisms, effective procedures for risk assessment, and effective control and safeguard arrangements for information processing systems. Those internal quality control mechanisms shall be designed to secure compliance with decisions and procedures at all levels of the audit firm or of the working structure of the registered auditor.”

Article 19, § 1, 7° of the Law of 7 December 2016 adds: *“The audit firm shall establish an internal quality management system to ensure the quality of the audit engagements” (free translation).*

The BAOB identified deficiencies with respect to:

- the thoroughness of the monitoring activities;
- archiving and monitoring of the archiving;
- the engagement quality control review; and
- keeping the internal procedures up-to-date.

Adequate internal procedures relating to audit quality guarantee at least the following aspects::

- all the relevant components of the audit file must be considered critically so as to adequately assess the audit procedures and, where appropriate, result in the identification of deficiencies;
- archiving must be done in a timely manner and the internal procedures should ensure that archiving is compulsory; hence, there is a need for appropriate monitoring to ensure timely archiving;
- the engagement quality control review must address all the elements imposed by Regulation (EU) No 537/2014; and
- the internal procedures must reflect and uphold the current procedures of the audit firm.

33%

Every audit firm must carry out the process of accepting or continuing a client relationship or specific engagement (including the relevant aspects related to the AML Law²³) in a systematic and timely manner. For one-third of the deficiencies identified, the BAOB noted that the internal procedures did not always ensure the timely completion of these processes.

Every audit firm must carry out the process of accepting or continuing a client relationship or specific engagement in a **systematic and timely** manner. The internal procedures must guarantee the timely completion of these processes (including the relevant aspects related to the AML Law).

Both the audit firm and the individual auditor play a decisive role here. In the majority of cases, the PIE audit firm has been appointed as statutory auditor and the individual auditor acts as its permanent representative, which places an important responsibility on the individual auditor.

The BAOB identifies the appointment of the statutory auditor by the general meeting of the client²⁴ as the critical moment for formally granting the auditor mandate. The appointment on this date will also be officially published in the Belgian Official Journal. An acceptance or continuance process that is not complete (or has not led to a clear conclusion) by the date on which the general meeting is held means that it will not be possible to establish with certainty that the necessary investigations were carried out and whether the appointment and acceptance of the statutory auditor's mandate would be appropriate at that critical moment. Thus, it cannot be excluded with certainty that certain facts or circumstances might occur that could result in the audit firm not being able to start performing its mandate, both under the Law of 7 December 2016 and under the AML Law.

This also concerns the provision for **contacting the previous statutory auditor in writing** as imposed by **Article 13, § 5 of the Law of 7 December 2016**. The purpose of this procedure is to prevent a potential successor from accepting a mandate without being aware of the circumstances leading to the non-renewal of the statutory auditor's mandate by the previous statutory auditor or the reasons for their dismissal. It is essential to fulfil this obligation prior to the appointment as a statutory auditor (as it has no use afterwards). This should therefore be provided for in the internal procedures. .

33%

One-third of the deficiencies identified relates to the fundamental principle of **independence**.

Independence is a fundamental principle for accepting or continuing a client relationships or specific engagement and this must be constantly monitored and maintained during the entire course of the client relationship.

²³ See further in this annual report.

²⁴ As described in Article 3:58 of the CAC.

Article 19, § 1, 5° of the Law of 7 December 2016 provides as follows (free translation):

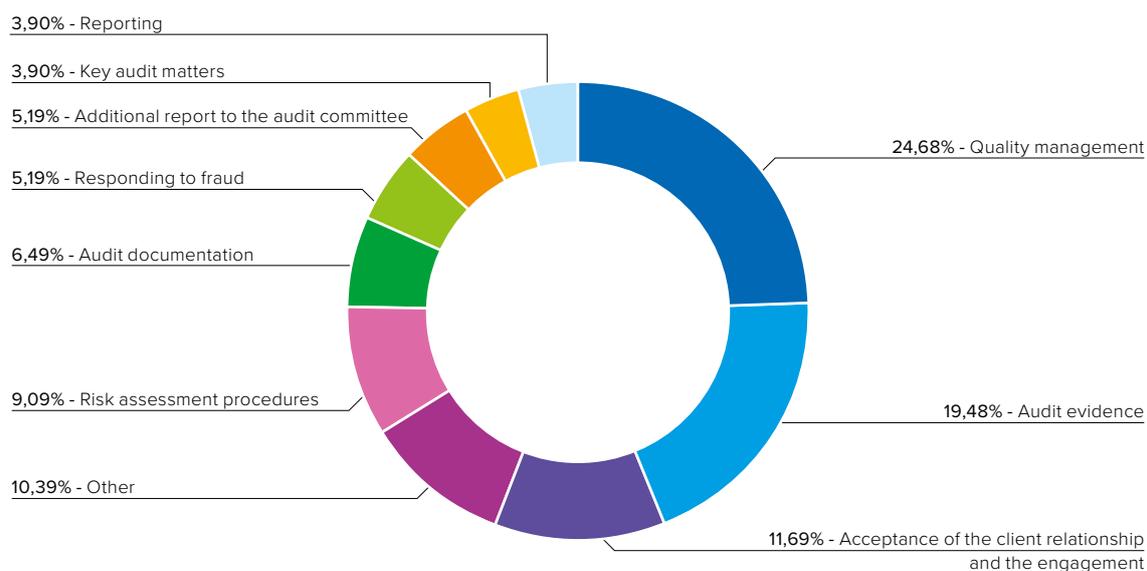
“The registered auditor shall establish appropriate and effective organisational and administrative arrangements to prevent, identify, eliminate or manage and disclose any threats to their independence.”

During its quality reviews, the BAOB found that audit firms’ policies and procedures relating to the required personal financial independence of partners, employees or other persons directly involved in the audit activities were inadequately implemented. The deficiencies mainly relate to incomplete declarations of personally-held investments, while these may be relevant for monitoring independence during the performance of audit activities. The BAOB also found that procedures for verifying independence were not systematically applied within the possible network.

6.3.2. Deficiencies in audit engagements of PIE auditors

The figure below shows the categories of audit procedures in the individual audit engagements of PIE auditors for which the BAOB identified deficiencies.

FIGURE 7 – Deficiencies in audit engagements of PIE auditors



Three main deficiencies in audit engagements of PIE auditors

1. Inadequate application of the quality control for an audit of financial statements (ISA 220) (safeguarding independence, timely acceptance of the client relationship or engagement, and timely and qualitative completion of the engagement quality control review)
2. Deficiencies relating to the overall objectives of the audit, including the requirement to obtain sufficient appropriate audit evidence, application of professional scepticism (ISA 200 and ISA 500) and responding to assessed risks (ISA 330)
3. Deficiencies relating to the risk assessment (ISA 315)

25%

Nearly one-fourth of the deficiencies identified by the BAOB relate to **ISA 220** on **quality control for an audit of financial statements**.

The BAOB identified deficiencies with respect to:

- independence with respect to the network, where the auditor did not make inquiries within the network to identify and assess circumstances and relationships that might impair independence;
- the timely acceptance of the client or audit engagement, as explained in the previous section relating to the organisational set-up;
- the timely and qualitative completion of the engagement quality control review:
 - The statutory auditor’s report and additional report to the audit committee can only be dated after the engagement quality control review has been completed;
 - The engagement quality control review must be documented in the audit file.

To carry out the required objective assessment, the engagement quality control reviewer must be sufficiently involved in the various stages of performing the audit engagement. The engagement quality control reviewer must conduct this objective assessment in a sufficiently critical manner to detect any deficiencies present.

19%

The second most common deficiency in the audit files relate to audit evidence. **Audit evidence is essential to enable the auditor to support their opinion and auditor’s report**.

ISA 200 sets out the overall objective of the audit, i.e. obtaining sufficient appropriate audit evidence to reduce the audit risk to an acceptably low level, thus enabling the auditor to draw reasonable conclusions on which to base the auditor’s opinion. **ISA 500** expands on this by defining how the auditor can obtain this appropriate audit evidence. The professional scepticism of the auditor is also a requirement as imposed by the ISA 200 standard. **ISA 330** sets out how the auditor should respond to assessed risks. The correct application of these standards is crucial to reach an appropriate and informed conclusion on the audit procedures.

Most of the deficiencies identified by the BAOB relate to inadequate or insufficiently conclusive audit evidence. Moreover, the audit procedures must be formulated in sufficient detail so that they lead to a well-substantiated conclusion. In some cases, the BAOB also found that the registered auditor had used information obtained from the entity without adequately assessing whether this information was sufficiently reliable for the auditor’s purposes.

12%

More than one-tenth of the deficiencies identified by the BAOB in the individual files at PIE auditors relate to the **acceptance process with respect to the client relationship or audit engagement**. Within this category, the BAOB identified deficiencies relating to the engagement letter and the written communications with the previous statutory auditor.

Article 21 of the Law of 7 December 2016 provides that registered auditors and their clients must draw up an **engagement letter** prior to the performance of the engagement.

The BAOB emphasises that it is in the interest of both the client and the auditor that the auditor has an engagement letter before the audit begins in order to avoid any misunderstandings regarding the audit.

The engagement letter must be **signed and dated before the start of the audit procedures**.

As already noted in relation to the organisational set-up level, the statutory auditor must **contact the previous statutory auditor in writing**²⁵ prior to their appointment by the client's general meeting. This obligation is also relevant to the individual engagement.

9%

As during its quality reviews of non-PIE auditors²⁶, the BAOB identified the mandatory **risk assessment procedures** of the auditor as one of the most common deficiencies in audit engagements for PIE auditors as well.

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 system of internal control. The objective is to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement.

The deficiencies identified by the BAOB relate to incomplete or missing analytical procedures and other inconsistencies in the risk assessment procedures. In the process of obtaining an understanding of the internal controls that are relevant to the audit, the auditor should also evaluate the design of those controls and determine whether they have been implemented by performing procedures in addition to inquiry of the entity's personnel.

These risk assessment procedures are very important. Obtaining an understanding of the entity and its environment is **a dynamic process of gathering, updating and analysing information and continues throughout the entire audit**. The understanding obtained throughout the entire audit establishes the frame of reference within which the auditor plans the audit and exercises professional judgment.

6%

About 6% of the deficiencies identified by the BAOB in audit files of PIE auditors relate to **audit documentation (ISA 230)**.

Nonetheless, an adequately documented audit file is far from mere formalism.

The audit file is the foundation for internal and external justification of the proper conduct of the audit.

The information in the audit file should be adequate to enable a third party (inside or outside the audit firm²⁷) to assess the audit by the auditor or to succeed the auditor²⁸. The audit file contains all relevant information arising from the auditor's audit procedures and allows to verify that the auditor conducted the audit in accordance with legal and regulatory requirements.

ISA 230 unequivocally states that the auditor is required to prepare the audit documentation in the audit file so as to enable an experienced auditor with no previous connection with the audit to obtain an understanding of the audit procedures performed.

²⁵ Article 13, § 5 of the Law of 7 December 2016.

²⁶ See further in this annual report.

²⁷ This applies, for example, in the context of an engagement quality control review (EQCR), the monitoring by a reviewer, in court proceedings or during reviews organised by the BAOB.

²⁸ Article 13, § 5, first paragraph of the Law of 7 December 2016.

In 2021, the BAOB published its insight on the importance and the four characteristics of a well-documented audit file²⁹.

5%

To a lesser extent, the BAOB found that the **additional report to the audit committee** did not always contain all the required elements as stipulated in **Article 11 of Regulation (EU) No 537/2014**.

5%

ISA 240 notes that management is in a unique position to perpetrate fraud. Due to the unpredictable way in which such an override could occur, it is a risk of material misstatement due to fraud and thus a significant risk. **The BAOB found that the risk of fraud was not adequately assessed and addressed in all audit files, constituting 5% of deficiencies in audit files.**

The main findings relate to the procedures to be performed with respect to journal entries. It is necessary to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of financial statements. In this regard, the standard explicitly states that the statutory auditor shall:

- **select** journal entries and other adjustments made **at the end** of a reporting period; and
- **consider** the need to test journal entries and other adjustments **throughout** the period.

The BAOB found in audit files that auditors often combined these steps, without going beyond considering whether there is a need to test journal entries, including those made at the end of the reporting period. However, the BAOB notes that the standard makes a clear distinction between entries made at the end of a reporting period and throughout the period.

Therefore, a selection must always be made of journal entries and other adjustments made at the end of a reporting period and the appropriateness of these journal entries must be tested. These journal entries also include those made after the balance sheet date in preparation of the financial statements. **For journal entries made during the reporting period, the statutory auditor must consider whether there is a need for a test.**

A selection must always be made of journal entries and other adjustments made at the end of a reporting period.

The auditor shall make inquiries of management, and others within the entity as appropriate, to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. Subsequently, these procedures must be documented in the audit file.

4%

Registered auditors must verify whether their clients are in compliance with the Companies and Associations Code (CAC). In the event of a breach, registered auditors must, in accordance with the **Supplementary Standard (revised version of 2020) to the ISAs applicable in Belgium, investigate and report the breach** in the 'Other statements' section **in the second part of the statutory auditor's report.**

²⁹ Insight of the BAOB of 18 November 2021, 'L'importance et les quatre caractéristiques d'un dossier d'audit bien documenté', available on https://www.fsma.be/sites/default/files/media/files/2021-11/2021-11-18_communication_dossieraudit.pdf (French and Dutch only).

The BAOB occasionally came across cases where registered auditors had failed to investigate this and/or report it in the second part of the statutory auditor's report. However, it is important to report the late submission of financial statements or missing valuation rules since this is valuable information for all stakeholders.

4%

The '**Key audit matters**' section of the auditor's report describes why the auditor considered a matter to be one of most significance in the audit and therefore communicated it as a key audit matter, and how the matter was addressed in the audit.

ISA 701³⁰ deals with the auditor's responsibility to communicate key audit matters in the auditor's report, addressing both the judgment as to what to communicate and the form and content of such communication.

Communicating key audit matters enhances the communicative value of the auditor's report and pursues multiple objectives. First, it provides **greater transparency** about the audit that was performed. Second, it provides **additional information to users of the financial statements to assist them in understanding** those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Finally, it can assist these users in understanding the entity and areas of significant management judgment in the audited financial statements, thus providing a basis to further engage with management and those charged with governance.

It is completely unacceptable that the statutory auditor's report describes audit procedures that are not reflected in the audit file.

The '*Key audit matters*' section of the auditor's report describes why the auditor considered a matter to be one of most significance in the audit and how the matter was addressed in the audit. **The BAOB finds it completely unacceptable that the statutory auditor's report describes audit procedures that are not reflected in the audit file.** The auditor shall also include in the audit file the **reason** for considering a matter to be a key audit matter.

10%

Other breaches of other standards include:

- Certain matters to be communicated with those charged with governance (ISA 260);
- Documenting audit procedures related to events occurring after the end of the reporting period (ISA 560);
- Updating the overall audit strategy and the audit plan as necessary during the course of the audit (ISA 300);
- Evaluating the reliability of the underlying data generated to prepare the cash flow forecast (ISA 570);
- The audit procedures to be carried out to evaluate whether all the group components have been included in the group financial statements, which are the significant components, which materiality levels are to be applied and which specified audit procedures are to be performed (ISA 600);
- Documenting the factors considered in determining performance materiality (ISA 320);
- Indicating an erroneous valuation rule in the statutory auditor's report (Article 3:75 of the CAC).

³⁰ ISA 701 applies to audits of complete sets of general purpose financial statements of listed entities and circumstances when the auditor otherwise decides to communicate key audit matters in the auditor's report. This ISA also applies when the auditor is required by law or regulation to communicate key audit matters in the auditor's report. However, ISA 705 (Revised) prohibits the auditor from communicating key audit matters when the auditor disclaims an opinion on the financial statements, unless such reporting is required by law or regulation. (ISA 701.5)

6.4. Quality reviews of non-PIE auditors

Every year, the BAOB subjects a number of non-PIE auditors to a quality review. The selection consists of auditors that are selected to comply with the oversight cycle (at least every six years) and auditors that have been identified as posing a potentially elevated risk of lower audit quality, potentially supplemented with a random selection.

During 2023, the BAOB covered the quality reviews that were initiated in 2022 and completed in 2023. In that context, the BAOB:

- **examined the organisational set-up of 22 auditors³¹; and**
- **inspected at least one audit engagement³² for 39 auditors.**

Based on these reviews, the BAOB imposed **141³³ measures** including:

- 10 reprimands;
- 51 compliance deadlines;
- 21 injunctions; and
- 59 recommendations.

6.4.1. Main deficiencies relating to the organisational set-up of non-PIE auditors

In its 2022 action plan, the BAOB decided to adopt a thematic approach on monitoring and archiving for its quality reviews of non-PIE auditors.

The quality reviews always included an assessment of the design of the internal quality management system and the implementation of these procedures and the legislative and standards framework in individual audit engagements.

There is merit in having monitoring as a key concept for quality management, both in terms of the design of audit procedures, and their application. A focus on monitoring also allows the BAOB to extend its review to the application of the legal and standards framework in the audit engagements.

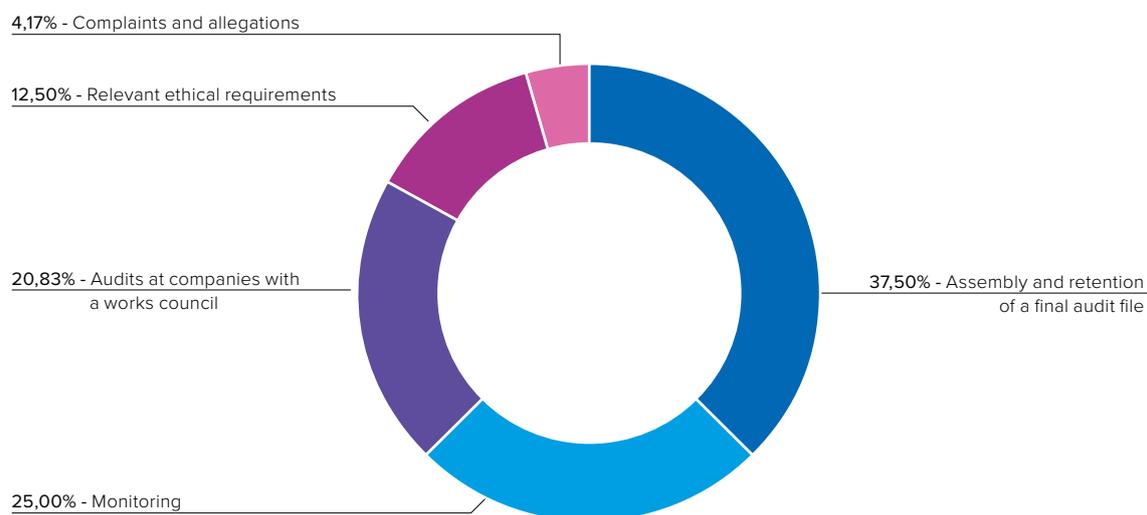
³¹ Auditors who are natural persons, and audit firms.

³² Statutory auditor's mandate and/or other statutory audit engagement.

³³ The BAOB Committee assesses each breach separately. Only in the exceptional case that breaches are the same or very similar in nature does the BAOB Committee impose a single measure for multiple breaches.

To summarise, the reviews performed identified the following deficiencies in the organisational set-up of non-PIE auditors as shown in the figure below.

FIGURE 8 – Deficiencies relating to the organisational set-up of non-PIE auditors



Three main deficiencies relating to the organisational set-up of non-PIE auditors

1. Inadequate application of the procedures for the assembly and retention of a final audit file
2. Failure to effectively perform the monitoring process
3. Inadequate activities in relation to the works council

38%

Most of the deficiencies identified by the BAOB in terms of the organisational set-up of non-PIE auditors relate to the **application of the procedures for the assembly and retention of a final audit file**. This issue is far from mere formalism.

Partly with a view to the internal and external justification of the proper performance of the audit, a good audit file includes all documents no later than 60 days after the signing of the auditor's report and has been archived.

Article 17, §§ 2 and 3 of the Law of 7 December 2016 provides as follows (free translation):

“§ 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 true and fair view of the performance of the engagement.

§ 3. The audit file must be closed no later than 60 days after the date of the signing of the auditor's report.”

As the final step in the process of legally constituting an audit file, archiving must guarantee its retention without change or alteration of its contents or the documents included in it. The audit file should allow to support the auditor's report at the time of signing it.

The registered auditor has a period of 60 days after the signing of the auditor's report to complete the administrative processing of the audit file. However, no new audit procedures should be performed or any new conclusions drawn during this period.

Only in exceptional cases, e.g. if new facts³⁴ or events³⁵ arise after the signing of the report and provided that the applicable standards are strictly applied, the audit file may be modified via, for example, additional audit procedures. In such situations, registered auditors must always assess the impact of this on their report.

An audit file is only legally valid if it gives a true and fair view of the performance of the engagement and has been constituted in accordance with the applicable regulations.

Although the BAOB regularly identifies gaps in the archiving of audit files, it again identified no deficiencies for several of the selected non-PIE auditors and audit firms in 2023. This is worthy of praise and is the result of discipline.

Among others, the BAOB observed the following effective initiatives and good practices as regards the assembly of final audit files:

- switching to completely paperless, electronic audit files in order to put an end to delays in collecting paper documents;
- using an automatic archiving feature of the audit software to record audit evidence within the collection period;
- applying a stricter policy by adopting a shorter assembly period than required under the legal and standards framework (i.e. no later than 60 days);
- automating reminder emails to staff for approaching deadlines, with increasing frequency as the deadline approaches; and
- setting the tone from the top by emphasising the importance of the audit file and including deficiencies in performance reviews.

25%

The second largest category of deficiencies relating to the organisational set-up of non-PIE auditors related to mandatory **monitoring**.

The purpose of monitoring compliance with policies and quality management procedures is to assess compliance with the professional standards and the applicable legal and regulatory requirements, whether the quality management system is adequate and effectively applied, and whether the audit firm's policies and quality management procedures are properly applied, so that the reports issued by the firm are appropriate in the circumstances.

Monitoring covers all areas of the audit firm's quality management system and is the foundation for guaranteeing and substantiating the quality of the auditor's activities. It continues to amaze that, nearly 10 years after ISQC 1 came into force, some auditors still do not master or apply this basic concept.

The most common deficiency relating to monitoring identified by the BAOB is that audit firms limited themselves to drawing up a written monitoring process. That is not enough. They are required to effectively implement this process and document it appropriately.

³⁴ For example, ISA 230.13 together with ISA 560.

³⁵ For example, ISA 230.16.

On 15 December 2023, the new ISQM 1 standard³⁶ entered into force, replacing ISQC 1 and introducing the design and implementation of a new quality management system for audit engagements. Paragraphs 53 and 54 of the ISQM 1 standard require an evaluation of the quality management system to be performed within one year, i.e. by 15 December 2024.

Auditors and audit firms should regularly review the design and effectiveness of their internal monitoring of firm-wide quality management areas in order to ensure that the monitoring activities are thorough and carried out in a timely manner.

It may be useful to digitise or automate certain monitoring activities where that is feasible (e.g. the oversight of the acceptance and continuation of client relationships), thus ensuring increased compliance with the internal procedures.

Another good practice is to perform a root cause analysis to identify the underlying causes of the deficiencies, thus allowing to develop an effective remediation plan.

Promptly communicating the findings/observations relating to the audit firm's audit activities to staff also helps to prevent recurrence of deficiencies.

21%

The third most common deficiency relating to the organisational set-up of non-PIE auditors identified by the BAOB relates to **audits at companies with a works council (Articles 3:83 through 3:92 of the CAC)**.

At companies with a works council, the registered auditor – and where appropriate the statutory auditor – has the following **four tasks**:

- reporting to the works council on the financial statements and the annual report;
- certifying the truthfulness and completeness of the economic and financial information provided by the management body to the works council³⁷;
- explaining and interpreting, in particular for the benefit of the members of the works council appointed by the employees, the significance of the economic and financial information provided to the works council with regard to the financial structure and the development in the company's financial position;
- if the auditor considers that they are unable to deliver the certification referred to under 2 above, or identifies gaps in the economic and financial information provided to the works council, they shall notify the management body thereof and, in the absence of any response within one month of that notification, they shall inform the works council on their own initiative.

In companies with a works council, the statutory auditor is appointed on the nomination of the works council, deliberating on the initiative and proposal of the management body and deciding by a majority of the votes cast by its members and by a majority of the votes cast by the members appointed by the employees.

The most common deficiencies identified by the BAOB were:

- the 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 CAC regarding auditing companies with a works council, such as the failure on the part of the management body to hand over a copy of the economic and financial information.

³⁶ 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.

³⁷ Provided such information is evidenced by the company's accounts, financial statements or other verifiable documents.

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

The work programme for the aforementioned four tasks is comparable to traditional work programmes.

The search for any gaps in the economic and financial information provided to the works council should be evident from the audit plan and the audit file. It is good practice to use a checklist to ensure that the information is complete.

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

12% Regarding the internal organisation of non-PIE auditors, the BAOB also identified deficiencies in terms of **internal procedures relating to the relevant ethical requirements**.

Each audit firm must establish procedures to provide the BAOB with **reasonable assurance** that it, its personnel and, as appropriate, other persons (including personnel of firms that are members of the network) maintain their independence as required based on ethical requirements. The internal procedures must allow the audit firm to **identify and evaluate circumstances and relationships that create threats to independence** and to **take appropriate action to eliminate such threats or reduce them to an acceptable level**.

The BAOB found that the procedures implemented by some registered auditors to monitor and document the level of compliance with relevant ethical requirements differ from the internal procedures established within their audit firm. Other auditors were even unable to demonstrate whether they had monitored compliance with relevant ethical requirements even though procedures had been established for this purpose within their audit firm.

Internal procedures related to the relevant ethical requirements should allow the audit firm to demonstrate that necessary monitoring has been carried out in a timely and appropriate manner (e.g. a memo on assessing the nature of non-audit services provided by the statutory auditor or by a member of their network).

4% Last on the list of the most common deficiencies relating to the organisational set-up of non-PIE auditors are those related to the **procedure for handling complaints and allegations**.

The procedure for handling complaints and allegations (**ISQC 1.55**) is related to the monitoring procedure. Complaints and allegations may be made by audit firm staff, or others external to the firm (e.g. clients). Every audit firm must establish procedures that provide reasonable assurance that it handles complaints and allegations appropriately. All complaints and allegations must be recorded, along with the responses to these.

Some registered auditors have established a procedure for dealing with complaints and allegations within their firms but have not implemented this. The most frequently identified deficiency is the lack of **channels available to firm personnel for raising concerns about particular issues without fear of reprisal**.

In small firms with a limited number of partners and in the case of sole practitioners, it is not always possible for the partners supervising the complaints investigation process to not be involved in the engagement. In that case, they may engage a qualified external person or another firm to investigate complaints and allegations.

The procedure for handling complaints and allegations should also take into account recent legislation on whistleblowers.

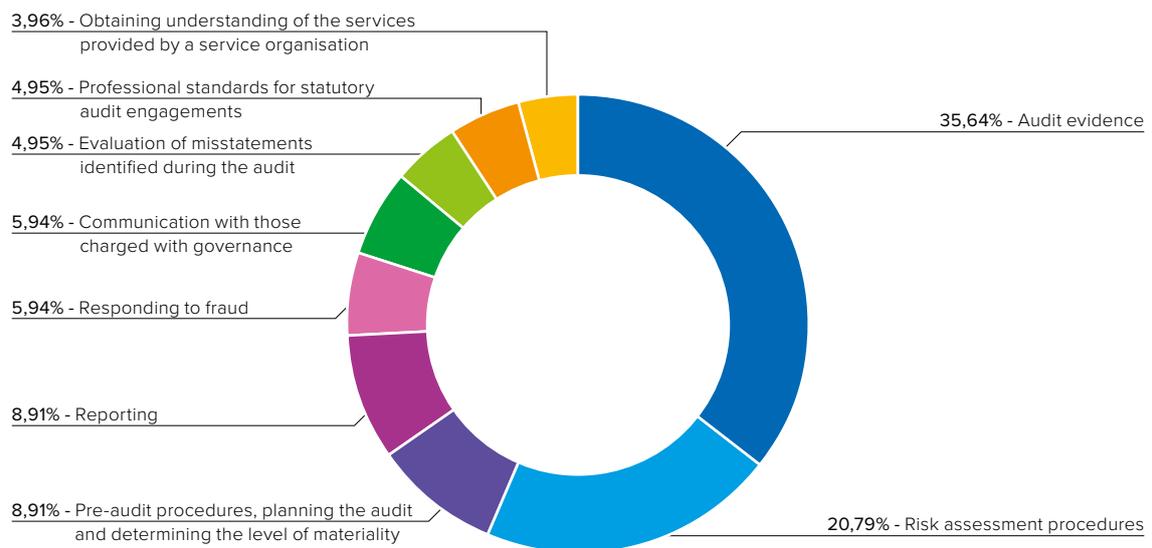
6.4.2. Deficiencies in audit engagements of non-PIE auditors

In selecting statutory audit engagements for the 2022 quality reviews of non-PIE auditors, the BAOB had a particular focus on the impact of the COVID-19 pandemic using the following themes:

- going concern and bankruptcy;
- accounting valuations;
- sectors and audit clients impacted by the COVID-19 pandemic (manufacturing companies with supply chain problems, bad debts, decrease in number of customers, etc.);
- activities in relation to the works council. Where appropriate, the BAOB wanted to examine whether the auditor was present at the works council if required, and whether they communicated the legally required information.

The figure below shows the categories of audit procedures for which the BAOB identified deficiencies during its quality reviews in the individual audit engagements of non-PIE auditors.

FIGURE 9 – Deficiencies in audit engagements of non-PIE auditors



Three main deficiencies in audit engagements of non-PIE auditors

1. Audit procedures that are not adequate to allow for sufficient appropriate audit evidence to be obtained for the auditor to be able to draw reasonable conclusions on which to base the auditor’s opinion
2. Inadequate risk assessment procedures for identifying and assessing the risks of material misstatement due to a lack of sufficient understanding of the entity and its environment
3. Inadequate performance of pre-audit procedures, planning of the audit, level of materiality and breaches of the CAC

36%

The most common deficiency identified by the BAOB in the audit files relates to audit evidence. **Audit evidence is essential to enable the auditor to support their opinion and auditor's report.**

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 is applicable to all the audit evidence obtained during the course of the audit.

Other ISAs deal with specific aspects of the audit (e.g. ISA 315 (Revised)³⁸), audit evidence in relation to a particular topic (e.g. ISA 570 (Revised)³⁹), specific procedures to obtain audit evidence (e.g. ISA 520⁴⁰), and the evaluation of whether sufficient appropriate audit evidence has been obtained (ISA 200⁴¹ and ISA 330⁴²).

Ranked from most to least common deficiencies within the category of audit evidence, the BAOB identified breaches of:

- ISA 530 on the use of audit sampling in performing audit procedures;
- ISA 520 on the use of substantive analytical procedures to obtain relevant and reliable audit evidence;
- ISA 550 on audit evidence relating to related party relationships and transactions;
- ISA 500 on audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion;
- ISA 505 on audit procedures relating to external confirmations;
- ISA 501 on audit evidence relating to certain aspects of inventory;
- ISA 560 on events occurring after the end of the reporting period;
- ISA 570 on audit evidence 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.

Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence.

Audit procedures to obtain audit evidence can include inspection, observation, confirmation, recalculation, reperformance, and analytical analyses, often in some combination, in addition to inquiry.

Obtaining reasonable assurance means that the statutory auditor obtains sufficient appropriate audit evidence to reduce audit risk (that is, the risk that the auditor expresses an inappropriate opinion when the financial statements are materially misstated) to an acceptably low level.

21%

As during its quality reviews in 2021⁴³, the BAOB identified the mandatory **risk assessment procedures** of the statutory auditor as one of the most common deficiencies in audit engagements for 2022 as well.

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 system of internal control.

³⁸ ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment.

³⁹ ISA 570 (Revised), Going Concern.

⁴⁰ ISA 520, Analytical procedures.

⁴¹ ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with *International Standards on Accounting*.

⁴² ISA 330, The Auditor's Responses to Assessed Risks.

⁴³ Quality reviews in 2021 of non-PIE auditors (campaign launched in 2021 and completed in H1 2022). See also the Insight of the BAOB of 29 November 2022 'Highlights des constatations effectuées lors des contrôles de qualité 2021 menés auprès de réviseurs d'entreprises non EIP', available on https://www.ctr-csr.be/sites/default/files/media/files/2022-11/221129_highlights_controledequalite_2021.pdf (French and Dutch only).

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

Within the category of these risk assessment procedures, most of the deficiencies identified by the BAOB in audit engagements of non-PIE auditors relate to:

- ISA 315.6 on the extent of the risk assessment procedures;
- ISA 315.21 on the required 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 controls by evaluating the design of those controls and determining whether they have been implemented by performing procedures in addition to inquiry of the entity's personnel.

The BAOB's observations showed that the audit file contained no, or only insufficient, audit documentation to demonstrate that the auditor had paid particular attention to these components of internal control.

The importance of these risk assessment procedures should not be underestimated. Obtaining an understanding of the entity and its environment is **a dynamic process of gathering, updating and analysing information and continues throughout the entire audit**. This understanding establishes the frame of reference within which the auditor plans the audit and exercises professional judgment throughout the audit.

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 as set out in ISA 315.11, and each component of the system of internal control as specified in ISA 315.14-24.**
- **This also applies to smaller audit firms. The auditor's primary consideration is whether the understanding that has been obtained is sufficient to meet the objective stated in ISA 315. The understanding obtained should be evident from the audit file.**

9%

The third largest category of deficiencies identified by the BAOB during its 2022 quality reviews of non-PIE auditors relates, on the one hand, to **deficiencies relating to pre-audit procedures, planning the audit and determining the level of materiality** and, on the other hand, to **deficiencies relating to reporting**.

The BAOB made a number of different observations.

As regards the **pre-audit procedures**, for example, the BAOB found that auditors did not check for compliance with the one-to-one rule⁴⁴. It also found that not all required staff signed the statement of independence for the audited entity in all cases.

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

⁴⁴ Article 3:64, § 3 of the CAC.

One of the statutory auditor's objectives is to apply the **concept of materiality** appropriately in planning and performing the audit. The audit file must include not only the amount of the materiality, but also the factors considered in its determination.

The deficiencies in terms of **reporting** identified by the BAOB mostly relate to the failure to mention breaches of the CAC in the second part of the statutory auditor's report. By including them, the auditor notifies shareholders and other stakeholders of the audited entity⁴⁵ of the breach(es). This information can be useful for all stakeholders, for example for the shareholders who have to vote on the discharge of directors' liability.

6% The following categories, in order of importance, relate, on the one hand, to **audit procedures to address the risk of fraud** and, on the other, to **communication with those charged with governance**.

In accordance with ISA 240 on the auditor's responsibilities relating to fraud in an audit of financial statements, the auditor must discuss the risk of fraud among the engagement team members. This discussion shall place particular emphasis on how and where the entity's financial statements may be susceptible to material misstatement due to fraud, including how fraud might occur. The discussion shall also occur setting aside beliefs that the engagement team members may have that management and those charged with governance are honest and have integrity.

In addition, irrespective of the auditor's assessment of the risks of management override of controls, the auditor shall make inquiries of management regarding the risk that the financial statements may be materially misstated as a result of fraud.

However, some registered auditors indicate that they have discussed the risk of fraud with management and/or with members of their engagement team, but the content of these discussions is not apparent from their audit files. This documentation issue cannot be considered a harmless oversight since it involves audit procedures aimed at identifying and assessing the risks of material misstatement due to fraud. The registered auditor's responsibilities relating to fraud continue to be a focus of the BAOB.

The other deficiencies identified among non-PIE auditors relate to ISA 260 on communication with those charged with governance. Registered auditors must properly identify the persons in the company who are charged with governance and inform them of (i) the responsibilities of the auditor and the persons charged with governance and (ii) an overview of the planned scope and timing of the audit, including the significant risks identified by the auditor.

This must be communicated as soon as possible and documented in writing. Registered auditors must include written documentation in their audit file or document their oral communications.

5% The BAOB also identified deficiencies relating to the **evaluation of misstatements identified during the audit** and the **professional standards applicable to the statutory audit engagements**.

The most common deficiencies relating to **ISA 450** on the **evaluation of misstatements identified during the audit** were as follows:

⁴⁵ In case the auditor's report is published together with the financial statements.

- The registered auditor did not determine the amount below which the misstatements can be considered to be clearly trivial;
- Prior to evaluating the effect of uncorrected misstatements, the auditor did not reassess materiality to confirm whether it remained appropriate in the context of the entity’s actual financial results;
- No list of uncorrected misstatements was attached to the representation letter.

The auditor must accumulate misstatements identified during the audit other than those that are clearly trivial. To prepare such a list in compliance with the requirements of the standard, the auditor must determine the level of materiality below which the misstatements are clearly trivial. ‘Clearly trivial’ is not another expression for ‘not material’. Misstatements that are clearly trivial will be of a wholly different (smaller) order of magnitude, or of a wholly different nature than those that would be determined to be material, and will be misstatements that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature of circumstances.

Prior to evaluating the effect of uncorrected misstatements, the auditor shall reassess materiality to confirm whether it remains appropriate in the context of the entity’s actual financial results. This assessment must be documented in the audit file even if the level of materiality remains unchanged.

Because the preparation of the financial statements requires management and, where appropriate, those charged with governance to adjust the financial statements to correct material misstatements, the auditor is required to request them to provide a written representation about uncorrected misstatements.

With regard to the identified deficiencies relating to the **professional standards for statutory audit engagements**, the BAOB observed in a non-PIE file that the representation letter did not list the court case records involving the entity in which the registered auditor acted as a court expert. Another deficiency concerned a proposal for dissolution where the auditor did not sufficiently identify the proposed transaction based on the report by the company’s management body to the general meeting.

4%

A final category of deficiencies identified by the BAOB relates to **obtaining understanding of the services provided by a service organisation**.

ISA 402 deals with the user auditor’s responsibility to obtain sufficient appropriate audit evidence when a user entity uses the services of one or more service organisations, such as social secretariats.

Specifically, it expands on how the user auditor applies ISA 315 (Revised)⁴⁶ and ISA 330⁴⁷ in obtaining an understanding of the user entity, including internal control relevant to the audit, sufficient to identify and assess the risks of material misstatement and in designing and performing further audit procedures responsive to those risks.

ISA 402.12 provides as follows:

“If the user auditor is unable to obtain a sufficient understanding from the user entity, the user auditor shall obtain that understanding from one or more of the following procedures: (a) obtaining a type 1 or type 2 report, if available.”

⁴⁶ ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment.

⁴⁷ ISA 330, The Auditor’s Responses to Assessed Risks.

In this regard, **ISA 402.A16** further specifies as follows:

“A service organisation may engage a service auditor to report on the description and design of its controls (type 1 report) or on the description and design of its controls and their operating effectiveness (type 2 report). Type 1 or type 2 reports may be issued under International Standard on Assurance Engagements (ISAE) 3402 or under standards established by an authorised or recognised standards setting organisation”.

Assuming that the payroll service provider has access to an **ISAE 3402 report**, the statutory auditor may rely on this report to express an opinion on the **quality of internal controls**.

If **no such report is available**, the **statutory auditor must carry out a number of audit procedures**.

Firstly, the statutory auditor must verify whether the payroll service provider is a recognised entity. Subsequently, in the context of ISA 315, the auditor must gain a proper understanding of the audited company’s internal controls to the extent relevant to the audit.

The auditor also evaluates the design of the internal controls. With regard to the submission and receipt of payroll information, the auditor shall in particular assess the risks of potential material misstatements. In doing so, the auditor shall assess:

- whether all the information collected for payroll calculations is complete and whether it was correctly and properly communicated to the payroll service provider;
- whether the information obtained from the payroll service provider is based on the communicated data; and
- whether this information was correctly recorded for accounting purposes.

The effectiveness of these procedures must then be assessed in the context of ISA 330 (responses to assessed risks) and depending on the audit strategy chosen. A sample of the payroll amounts is recomputed for clerical accuracy.

As part of the responses to the assessed risks, it is also useful to carry out substantive analytical procedures (ISA 520) to ensure the consistency of the analytical data with the financial data presented in the balance sheet and income statement. This may include an assessment of the reasonableness of withholding tax, benefits in kind and transport expenses. If consistency cannot be assured, the statutory auditor must perform additional audit procedures (tests of details) to determine whether the discrepancies are attributable to the audited entity or to the payroll service provider. In the latter case, the statutory auditor, based on their professional opinion, must challenge the services provided by the payroll service provider.



7 COMBATING MONEY LAUNDERING AND TERRORIST FINANCING

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Article 85, § 1, 6° of the AML Law designates the BAOB as the competent authority to oversee how registered auditors comply with this Law⁴⁸ in the performance of their audit engagements and other activities that they are authorised to perform based on their registration or entry in the public register of auditors or based on their status of trainee auditor.

7.1. Review approach

The BAOB exercises its oversight of compliance with the AML Law on the basis of a risk assessment that requires it to have an understanding of the ML/TF risks in Belgium, and determines the frequency and intensity of its oversight based on the risk profile of the auditors.

Determining the risk profile of each auditor requires the BAOB, first and foremost, to obtain relevant information. To this end, the BAOB launched an AML Survey⁴⁹ for the first time in 2018, which was repeated in 2022.

In early 2023, the BAOB published⁵⁰ its **updated sectoral risk analysis** of ML/TF to support auditors in assessing their integrity risks and the risk profile of their client. This analysis includes the results of the 2022 AML Survey.

In addition, based on the results of the 2022 AML Survey and self-declarations by the sector (after review by the BAOB), **10 key insights**⁵¹ were formulated and published in early 2023.

The AML Law requires the BAOB to regularly update the risk profile of the registered auditors. This enables the BAOB to better gear the frequency and intensity of its oversight to the risk profile of the registered auditors reviewed by it⁵².

This is why, in 2023, the BAOB decided to include the key questions in the Auditors Annual Cartography (AAC) that registered auditors are required to complete⁵³.

Since 2018, the sector has made great progress in managing its money laundering risk and client risk profiles. Effective risk management is essential for ML/TF prevention. Registered auditors must analyse and assess their clients' risks and, depending on the individual risk profile, exercise appropriate vigilance.

Since 2018, the sector has made great progress in managing its money laundering risk and client risk profiles.

However, there is room for further improvement. Overall, the sector submits relatively few reports regarding atypical transactions to the Financial Intelligence Processing Unit (CTIF-CFI). The identification and verification of politically exposed persons could also be improved. These are areas of concern that the BAOB will continue to consider.

⁴⁸ The BAOB is responsible for the oversight of the subject entities as defined in Article 5, § 1, 23° of the AML Law (free translation): "natural persons or legal entities carrying out activities in Belgium that are registered or entered in the public register held by the Belgian Institute of Registered Auditors in accordance with Article 10 of the Law of 7 December 2016 relating to the organisation of the profession and the public oversight of registered auditors, natural persons that are trainee auditors for external companies as defined in Article 11, § 3 of the aforementioned Law, as well as audit firms and any person exercising the profession of statutory auditor".

⁴⁹ Article 55 of the Law of 7 December 2016 and Articles 85, § 1, 6° and 87, § 1, third paragraph of the AML Law.

⁵⁰ The BAOB published its updated sectoral risk analysis on 22 February 2023. This publication is available on https://www.fsma.be/sites/default/files/media/files/2023-03/baob_sectoral-risk-analysis.pdf.

⁵¹ The BAOB published its 10 key insights based on the results of the 2022 AML Survey on 22 February 2023. This publication is available on https://www.fsma.be/sites/default/files/media/files/2023-02/csr_pointsdevue_aml_survey2022.pdf (French and Dutch only).

⁵² Article 87, § 1, first paragraph, 2° of the AML Law.

⁵³ See further in this annual report.

The BAOB's review approach, as applied while performing quality reviews of PIE and non-PIE auditors, includes a section relating to ML/TF risks and another relating to thematic reviews.

Since 2018, in the context of the **quality reviews of PIE and non-PIE auditors**, the BAOB also examines the organisational set-up and the application of the internal procedures for a selection of audit files. This is part of the BAOB's efforts 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, as well as compliance with vigilance obligations and the identification of politically exposed persons. Therefore, the BAOB monitors the obligation for all registered auditors to have the required internal ML/TF procedures in place and to effectively apply these in an audit cycle of at least three years for PIE auditors and six years for non-PIE auditors.

Since 2023, for quality reviews of PIE auditors, the BAOB has been using a risk-based approach to select the statutory auditor mandates to be reviewed.

Since 2018, in the context of the quality reviews of PIE and non-PIE auditors, the BAOB also examines the organisational set-up and the application of the internal procedures for a selection of audit files.

In addition, the BAOB conducts **thematic reviews relating to the fight against ML/TF**. During these sample reviews, the risk profile of the registered auditor, the results of the 2022 AML Survey and the updated sectoral risk analysis published by the BAOB in early 2023 are taken into account.

For example, in 2022, the BAOB started performing thematic reviews within the leisure sector and some of its sub-segments that are more exposed to money laundering risks, as well as reviews of Belgian registered auditors that conduct audit activities not only in Belgium but also abroad.

Finally, the BAOB also carries out sample reviews with a focus on the effective application of internal ML/TF procedures in audit files. This does not only concern statutory auditor mandates. Non-recurring special engagements or accounting activities may also entail higher risks.

7.2. Thematic and risk-based reviews

Article 87 of the AML Law stipulates that the BAOB must conduct its oversight in a risk-based manner.

7.2.1. Reviews on high-risk sectors and clients and cross-border activities

The BAOB performed a number of reviews in high-risk sectors. These are sectors characterised by a high risk of money laundering, according to national and supranational risk assessments⁵⁴, among others. Therefore, inspections were carried out in 2022 for audit files of clients active in the leisure sector, e.g. professional soccer, games of chance, betting offices and virtual assets⁵⁵. Thematic reviews were also carried out with a focus on identifying the clients of Belgian registered auditors and possible links to the activities of registered auditors with an audit firm in Luxembourg.

⁵⁴ See the supranational risk assessment of 27 October 2022, available on <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52022SC0344>.

⁵⁵ In this regard, the BAOB refers to its Insight on the professional competence required for auditing clients active in virtual assets of 22 December 2022, 'Capacité professionnelle requise pour l'audit de clients opérant dans le domaine des actifs virtuels (virtual assets)', available on https://www.ctr-csr.be/sites/default/files/media/files/2022-12/20221222_virtualassets_fr.pdf (French and Dutch only).

Finally, the BAOB conducted additional reviews in 2023 based on the results and notable findings from the 2022 AML Survey⁵⁶ relating to auditors and audit firms exposed to increased ML/TF risks. For this, the BAOB selected those auditors who derived a high percentage of their turnover from their accounting activities, those who performed a large number of statutory engagements, those with clients in high-risk sectors such as retail and luxury goods, and those holding statutory auditor mandates in the public and public-private sectors.

This risk-based approach led to the opening of eight investigation files (since there were indications of serious breaches), the imposition of preventive measures for three files and the closure of one file without further action. The remaining oversight and investigation files will continue to be dealt with in 2024.

7.2.2. Reviews of trainee auditors

Trainee auditors are subject to the AML Law pursuant to Article 5, § 1, 23° of the AML Law⁵⁷.

Pursuant to Article 8 of the AML Law and just as other entities subject to the AML Law, trainee auditors must develop and implement effective ML/TF policies, procedures and internal controls commensurate with the nature and scope of their activities. In principle, this applies to all trainees, regardless of whether they are employed by a firm or self-employed.

In the case of trainee auditors who perform their traineeship under a self-employed service provider contract, there is a potentially higher risk of non-compliance with the AML Law. This is because they, unlike trainees with an employment contract, are not required to follow the internal ML/TF procedures of the audit firm where they are performing their traineeship.

Consequently, from a risk-based perspective, the BAOB focused its oversight solely on trainee auditors performing their traineeship under a self-employed service provider contract. In 2023, the BAOB wrote to the entire target population as well as their traineeship supervisors enquiring about the use of ML/TF procedures.

In 27,27% of the files, the internal ML/TF procedures of the audit firm were found to be contractually applicable to trainee auditors when performing the activities they were authorised to perform by virtue of being trainee auditors. However, in the remaining 72,72% of the files, trainee auditors did not have their own ML/TF procedures and, as a result of the BAOB's review, the parties signed an addendum to the contract to declare the audit firm's internal ML/TF procedures as contractually applicable to the trainee auditors when performing the activities they were authorised to perform by virtue of being a trainee auditor. Based on the measures taken by trainee auditors in the individual files, BAOB concluded that all the self-employed trainee auditors reviewed had complied with Article 8 of the AML Law.

In this regard, the BAOB refers to the publication⁵⁸ of its AML recommendation of 7 September 2023 clarifying the ML/TF obligations that apply to trainee auditors that are natural persons, and the way in which their traineeship supervisor or the audit firm where the traineeship supervisor works has handled these obligations.

⁵⁶ The BAOB published its 10 key insights based on the results of the 2022 AML Survey on 22 February 2023. This publication is available on https://www.fsma.be/sites/default/files/media/files/2023-02/csr_pointsdevue_aml_survey2022.pdf (French and Dutch only).

⁵⁷ Article 85, § 1, 6° of the AML Law designates the BAOB as the competent authority to oversee compliance of trainee auditors with this Law in the performance of the activities that they are authorised to perform based on their status of trainee auditor. Based on this provision, the BAOB is solely responsible for ensuring that trainee auditors comply with the AML Law. In fact, the AML Law designates the BAOB as the supervisory authority and therefore the body with ultimate responsibility.

⁵⁸ AML recommendation of the BAOB of 7 September 2023, 'Trainee auditors', available on https://www.ctr-csr.be/sites/default/files/media/files/2023-11/baob_aml_recommendation.pdf.

7.3. Deficiencies relating to ML/TF obligations among PIE auditors

The AML Law imposes various obligations on PIE auditors and audit firms to prevent, detect and stop transactions related to ML/TF.

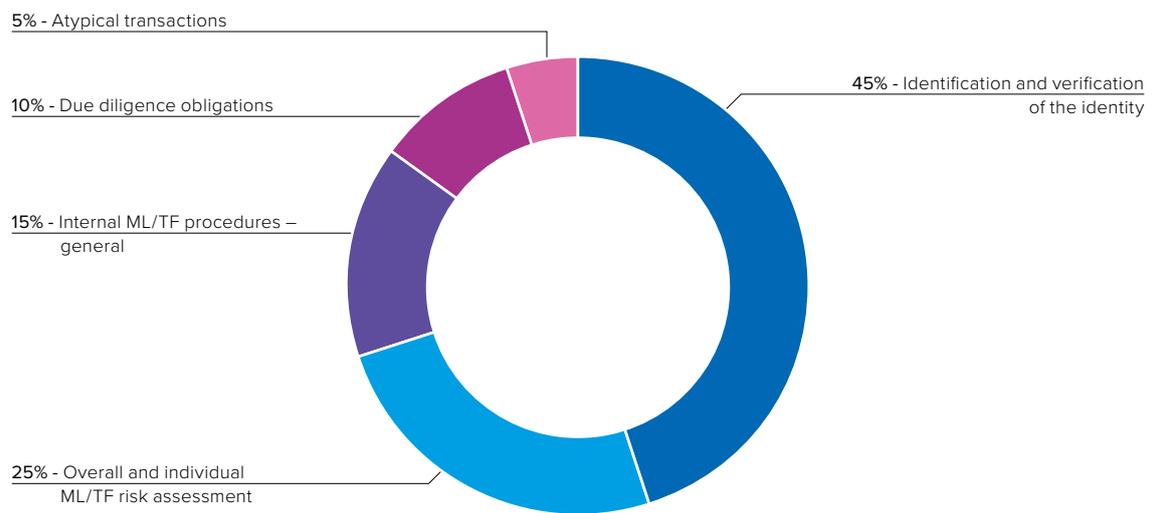
In the context of the quality reviews, the BAOB examined both the organisational set-up and the application of the internal ML/TF procedures for a selection of audit files. The BAOB organised this review in the context of its PIE quality reviews. **In 2023, the results were based on:**

- **the organisational set-up of 4 PIE audit firms; and**
- **at least one audit engagement of 25 auditors who had performed audits of one or more PIEs.**

As a measure, the BAOB formulated **20 injunctions** for the identified deficiencies.

The figure below shows the ML/TF categories for which the BAOB identified deficiencies among PIE auditors.

FIGURE 10 – Deficiencies relating to ML/TF obligations among PIE auditors



Three main deficiencies relating to ML/TF obligations among PIE auditors

1. Late or incomplete performance of activities relating to identification and verification of the identity
2. Incomplete or incorrect overall and individual ML/TF risk assessments
3. Incomplete or non-systematically applied internal ML/TF procedures

45%

Almost half of the deficiencies identified involve the **identification and verification of the identity of the client, beneficial owners of the client and agents.**

The deficiencies identified relate to **late or incomplete performance** of these activities. The deficiencies also relate to **incorrect or incomplete internal procedures** governing these activities.

The BAOB reiterates below the main principles in this regard.

– **The start of the business relationship**

Article 30, first paragraph of the AML Law provides as follows (free translation): *“the identification and the verification of the identity of the client and its beneficial owners must be carried out before establishing the business relationship.”*

In the case of a statutory auditor’s mandate, the BAOB considers the appointment by the general meeting to be the moment the business relationship is established. For it is when the appointment takes effect that the auditor has been formally engaged. From that moment onwards, the mandate can only be terminated for the reasons listed exhaustively in the CAC. The identification and the verification of the identity of the client and of the client’s beneficial owners must therefore take place before the appointment of the statutory auditor by the general meeting.

– **Identification and verification of the identity of the agent**

The identification of the agent and the verification of their identity and their authority to act on behalf of the client must be carried out before the agent proceeds to take any actions that bind the client. In practice, for audit engagements, this will usually coincide with the **time of the signing of the engagement letter by the client’s agent.**

– **Exception on the time of the verification of the identity**

The AML Law allows, in exceptional cases, the verification of the identity (not the identification itself) of the client and of the client’s beneficial owners to be done **in the course** of the business relationship.

For this exception to be invoked, the following **cumulative conditions must be met:**

- There must be special circumstances as listed exhaustively in the internal procedures of the auditor;
- it must be necessary for the engagement not to be interrupted by performing the verification; and
- the individual risk assessment must show that the business relationship presents a low ML/TF risk.

In the exceptional case where all these conditions are met, the verification shall nevertheless still be carried out **without delay after the first contact with the client.** Auditors seeking to invoke this exception must also apply increased vigilance to all transactions, including the verification of the identity. This may lead to a mandatory written report if the identity cannot be verified sufficiently quickly.

25%

Articles 16 and 19 of the AML Law describe, respectively, the **overall and individual risk assessments of ML/TF risks.** A quarter of the deficiencies identified by the BAOB relate to these Articles.

The aim of the **individual assessment of the ML/TF risks** for every client is to identify and assess the risks associated with the client, taking into account the particular characteristics of the client and the business relationship or transaction involved. This individual risk assessment also takes into account the overall risk assessment and the factors taken into account in its performance (**Article 19 of the AML Law**).

Auditors prepare an **overall risk assessment** in which they identify and assess the ML/TF risks they are exposed to, taking into account the characteristics of their clients, the products, services or transactions they offer, the countries or geographical areas involved, and the distribution channels used by them (**Article 16, first paragraph of the AML Law**). The overall risk assessment is **complete only if it takes into account the variables listed in Annexes I and III of the AML Law**. The BAOB found that the **mandatory risk factors** were not always included in the risk assessments as applied by the audit firms.

It also found **inconsistencies in the individual files between the completed individual risk assessments and the underlying supporting documents**. Such errors may give rise to classification in the wrong risk category and therefore the use of inappropriate vigilance.

The individual risk assessment allows the auditor to apply **vigilance measures proportionate to the identified risk level**. The vigilance measures are based on the individual assessment of ML/TF risks (**Article 35, § 1 of the AML Law**). For each possible risk level (e.g. low, standard, high), the auditor shall describe the measures relating to the identification, the verification of the identity and the ongoing vigilance associated with this risk level.

15%

The third category where the BAOB identified the most deficiencies relates to the **internal ML/TF procedures**.

The deficiencies identified relate to **internal ML/TF procedures** that are **incomplete** or **not up-to-date**. In addition, the BAOB also found that internal ML/TF procedures were **not systematically correctly** applied, resulting in a deficiency.

This category also includes internal procedures that were not in compliance with the AML Law in connection with the **UBO register** (ultimate beneficial owners). For example, the audit firm is required to report to the Administration of the Treasury any discrepancies found between the information in the UBO register about the beneficial owners and the information available at the audit firm about the beneficial owners.

10%

One-tenth of the deficiencies identified by the BAOB relating to the ML/TF obligations of PIE auditors relate to the **vigilance obligations**.

In these cases, the BAOB found that the existing internal procedures did not include the legal requirements for **increased vigilance in relation to politically exposed persons (PEP) (Article 41, § 1 of the AML Law)**.

Where politically exposed persons and related persons have been identified, the AML Law does not allow for any exception in the exercise of increased vigilance.

If the auditor finds that a client, an agent or a beneficial owner of a client is or has become a PEP, a family member of a PEP or a person known to be closely associated with a PEP, enhanced vigilance measures shall be taken, including:

- obtaining approval from senior management for establishing or continuing business relationships with such persons or for carrying out an occasional transaction on behalf of such persons;
- taking adequate measures to establish the source of wealth and of the funds that are involved in the business relationships or transactions with such persons; and
- subjecting the business relationship to enhanced scrutiny.

Within this category of deficiencies, the BAOB also identified a lack of adequate internal procedures for **increased vigilance in the case of clients involved with a high-risk third country.**

5%

Finally, a lower proportion of the deficiencies identified by the BAOB concerned procedures relating to **atypical transactions.**

These deficiencies relate to **internal ML/TF procedures and training programmes** that are inadequate for **identifying atypical transactions.** Indeed, point 5.1 of the IRE-IBR standard of 27 March 2020 requires audit firms to communicate in writing the criteria that should enable the parties involved to identify atypical transactions.

7.4. Deficiencies relating to ML/TF obligations among non-PIE auditors

The AML Law also imposes various obligations on non-PIE auditors to prevent, detect and stop transactions related to ML/TF.

In the context of the quality reviews of non-PIE auditors, the BAOB examines both the organisational set-up and the application of the internal ML/TF procedures for a selection of audit files. This is part of the BAOB's efforts 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, as well as compliance with vigilance obligations and the identification of politically exposed persons.

During 2023, the BAOB covered the quality reviews that were initiated in 2022 and completed in 2023. **In the context of these non-PIE quality reviews, it examined the anti-money laundering obligations for:**

- **the organisational set-up of 22 auditors⁵⁹; and**
- **at least one audit engagement⁶⁰ for 39 auditors.**

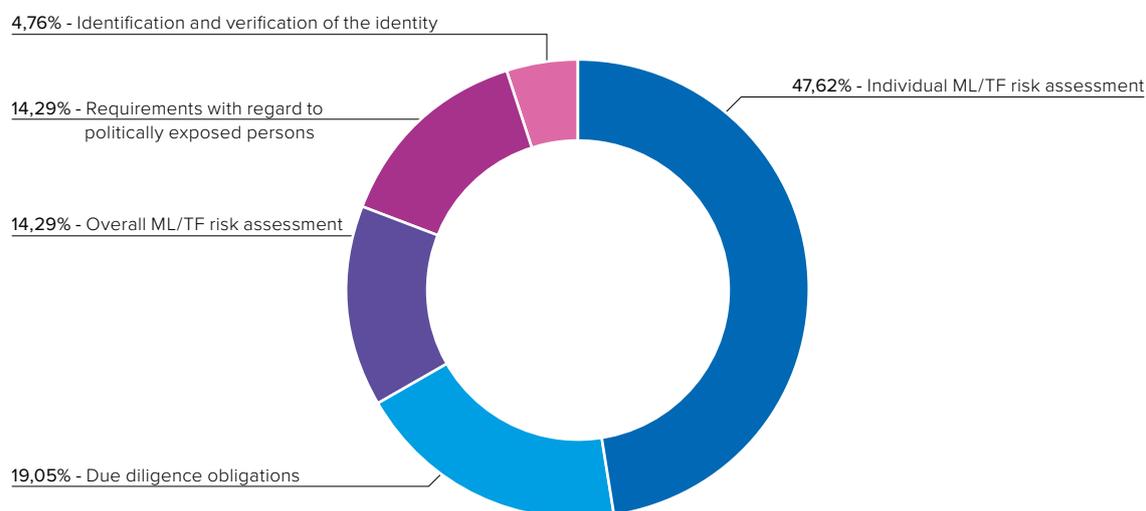
As a result of the quality review campaign, the BAOB imposed **21 injunctions** for deficiencies relating to ML/TF obligations among non-PIE auditors.

⁵⁹ Auditors who are natural persons, and audit firms.

⁶⁰ Statutory auditor's mandate and/or other statutory audit engagement.

The figure below shows the ML/TF categories for which the BAOB identified deficiencies among non-PIE auditors in the context of its 2022 quality review campaign.

FIGURE 11 – Deficiencies relating to ML/TF obligations among non-PIE auditors



Three main deficiencies relating to ML/TF obligations among non-PIE auditors

1. Undated or late individual assessment of ML/TF risks
2. Failure to adapt the vigilance obligations
3. Absence of an updated overall risk assessment and lack of research on politically exposed persons

48%

As for the 2021 quality review campaign, the most common deficiency relating to ML/TF obligations identified by the BAOB relates to the **individual assessment of ML/TF risks**, accounting for almost half of the deficiencies identified.

The auditor is required to perform an individual risk assessment for every client, prior to the start of the business relationship (**Article 34, § 1 of the AML Law**). The aim is to identify and assess the risks associated with the client, taking into account the particular characteristics of the client and the business relationship or transaction involved.

The BAOB found on several occasions that the individual risk assessment had **not** been performed **in time**, i.e. at the latest at the time of establishing the business relationship or carrying out the occasional transaction. It also found in some cases that the risk assessment was **undated**, which prevented the auditor from evidencing the timing of its preparation.

To address this observation, the BAOB drafted its **AML recommendation of 5 October 2023 on, among other things, the timing of the individual ML/TF risk assessment**. This AML recommendation is available on its website⁶¹.

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

In the case of a statutory auditor's mandate, the BAOB considers the appointment by the general meeting to be the moment the statutory auditor is formally appointed.

Similarly, the moment of establishing the business relationship for carrying out another statutory audit engagement is the appointment of the auditor by the competent management body, i.e. the signing of the engagement letter. The same applies to other types of tasks, such as bookkeeping, which auditors may carry out on the basis of their registration in the public register and for which they are thus subject to the AML Law.

19% In almost one quarter of the deficiencies relating to ML/TF obligations, the BAOB identified a breach of the **vigilance obligations**.

This category includes, for example, deficiencies when the auditor **does not provide – or does not apply – complete and up-to-date procedures** for enhanced vigilance for the business relationship or occasional transaction when the client, the agent and/or the beneficial owner is located in a **high-risk third country**.

Another deficiency was that, with regard to the identification of the client and the verification of the client's identity, the auditor did not associate the **appropriate vigilance measures with the identified risk level**.

As regards the identification and the verification of the identity of the client, the auditor must adapt the vigilance obligations in accordance with the identified risk level associated with the client and the business relationship or transaction involved. **Simplified measures⁶² are appropriate for a low ML/TF risk, while enhanced measures⁶³ are appropriate for a high ML/TF risk**, e.g. a client who is a resident of a geographical region with a high risk level or with risk features associated with products, services, transactions or distribution channels.

14% The third most common deficiency relating to ML/TF obligations identified by the BAOB relates, on the one hand, to the **obligation to prepare and regularly update an overall risk assessment** and, on the other, to the **obligations in respect of a politically exposed person (PEP)⁶⁴**.

As regards the deficiencies relating to the performance of an **overall risk assessment**, the BAOB found that in some cases the auditor had performed an **incomplete** overall risk assessment or had **not updated** it.

The overall risk assessment is complete only if it takes into account the variables listed in Annexes I and III of the AML Law. The BAOB developed a guide⁶⁵ to help auditors prepare their overall risk assessment.

61 AML recommendation of the BAOB 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 https://www.ctr-csr.be/sites/default/files/media/files/2023-10/ctr_csr_aml_recommandation_202310_en.pdf.

62 Where the individual risk assessment shows that the risk associated with the client and the business relationship or transaction is low, the subject entity may limit 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 distinguish the person concerned from any other person with sufficient certainty.

63 Where the individual risk assessment shows that the risk associated with the client and the business relationship or transaction is high, the subject entity must ensure with increased attention that the information collected under Article 26, § 2 of the AML Law enables it to indisputably distinguish the person concerned from any other person. If necessary, it will collect additional information for this purpose.

64 As defined under Article 4, 28° of the AML Law.

65 The tool 'Mon évaluation globale des risques' is available on <https://www.ctr-csr.be/fr/ctr-csr/guide-pratique-mon-evaluation-globale-des-risques> (French and Dutch only).

The overall risk assessment should be updated whenever an event occurs that may have a significant impact on one or more risks. The AML Compliance Officer (AMLCO) should verify at least annually whether the overall risk assessment is still up-to-date.

In terms of documenting the update, it is good practice to provide a permanent field for the date of preparation and update of the overall risk assessment.

As regards the obligation to **identify and verify the identity of politically exposed persons** (PEP), the BOAB found on several occasions that the auditor neglected to take reasonable measures to determine whether a client or an agent or beneficial owner of a client was a PEP, a family member of a PEP or a person known to be closely associated with 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 their research in the audit file**, even if it did not yield any results.

5%

Finally, a lower proportion of the deficiencies identified by the BOAB relates to **identification and verification of the identity**.

Registered auditors may rely on a third-party 'business introducer' to carry out the vigilance obligations provided for in Articles 26 to 32, 34 and 35, § 1, 2° of the AML Law.⁶⁶ In that case, the ultimate responsibility for complying with those obligations remains with the registered auditors.⁶⁷

In particular, it should be noted that the use of third-party 'business introducers' does not relieve the registered auditor of the obligation to maintain in the audit file the documentation necessary to identify and verify clients, their agents and their beneficial owners before entering into a business relationship with them.

7.5. Restriction on the use of cash

As part of its oversight mission, the BOAB is required to report certain breaches to the FPS Economy⁶⁸. This is the case when the BOAB establishes one of the following situations:

- the payment of the sales price of real estate is not made via bank transfer or cheque;
- otherwise specific cash payments or donations are made or received in excess of EUR 3.000 or its equivalent in another currency;
- specific postal deposits are made by non-consumers to third-party accounts or postal current accounts or by consumers for amounts in excess of EUR 3.000.

In 2023, **the BOAB reported no breaches** of Article 67, § 2 of the AML Law to the FPS Economy.

⁶⁶ These legal provisions relate to: (i) the purpose and timing of the identification of the client and the verification of the identity and, where appropriate, the identification of their agents and beneficial owners, (ii) the identification of the characteristics of the client and the purpose and nature of the business relationship or the occasional transaction, and (iii) keeping the records up-to-date.

⁶⁷ Article 42 of the AML Law.

⁶⁸ Article 116/3 of the AML Law.

7.6. Evaluation by the Financial Action Task Force (FATF) of the completeness and effectiveness of the anti-money laundering legislation in Belgium

ML/TF practices come in many forms and are constantly evolving. Moreover, these illegal practices are not limited to a specific geographical territory. The FATF is an intergovernmental institution established in 1989 that combats ML/TF and other threats to the integrity of the international financial system. To this end, it developed 40 recommendations that have been recognised as international standards in the fight against ML/TF.

The preparations for Belgium's mutual assessment are being coordinated by the Administration of the Treasury of the FPS Finance. This preparation is based on the various Immediate Outcomes⁶⁹ (IOs), which also serve as a guide for the evaluation. IOs are various results based on which a country's anti-money laundering policy is evaluated by the FATF.

The different oversight authorities provide input based on their relevance in relation to each IO. In addition, working groups have been set up to prepare for some of the main IOs.

In 2023, the BAOB provided its input for all the IOs for which its input was sought. In 2024, the final report will be prepared under the coordination of the Administration of the Treasury, for which the BAOB will also have to provide the final input.

7.7. Raising awareness through communication and dialogue

Communicating its expectations regarding the proper implementation of the regulatory framework for the fight against ML/TF is a key priority for the BAOB. The BAOB shares its insights to raise awareness within the sector about repeatedly identified breaches or difficulties and to promote best practices. By doing this, the BAOB also increases the predictability of its actions.

In this context, the BAOB published three **AML recommendations** in 2023:

- AML recommendation of 7 September 2023 on trainee auditors;
- AML recommendation of 5 October 2023 on the time of the identification and the verification of the identity;
- AML recommendation of 9 November 2023 on money laundering typologies and atypical transactions.

The BAOB published these AML recommendations on its webpage dedicated specifically to the fight against ML/TF⁷⁰.

The BAOB also wishes to raise awareness in the sector via **presentations**. As such, on 5 June 2023, at the ICCI's anti-money laundering seminar, it gave a presentation on the main deficiencies identified by the BAOB with respect to ML/TF and the BAOB's expectations.

The BAOB also emphasises the **importance of national dialogue and cooperation**. In 2023, it intensified its ongoing dialogue with the General Administration of the Treasury, the NBB and the FSMA in the context of the fight against money laundering.

⁶⁹ The methodology applied by the FATF is available on <https://www.fatf-gafi.org/en/publications/Mutualevaluations/Fatf-methodology.html>.

⁷⁰ <https://www.ctr-csr.be/en/ctr-csr/combating-money-laundering-and-terrorist-financing>

In its continuous efforts to improve the approach to combating money laundering, the BAOB, the FSMA and the NBB meet at least once (and preferably twice) a year with the primary objective of exchanging knowledge and ideas, while respecting each other's professional secrecy. Holding these '**trilogues**' and setting up a systematic process for knowledge sharing between these three institutions is entirely in line with the importance given by international organisations (such as the Council of Europe and the FATF) to cooperation between the various oversight authorities in a country. The first trilogue between the BAOB, the FSMA and the NBB was held in January 2024.



8 OVERSIGHT

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In addition to the quality reviews, the BAOB may also decide to perform its public oversight by carrying out ad hoc or thematic reviews of one or more audit firms based on trends, developments and new insights.

Other common sources of oversight files are going concern problems, bankruptcies, disputes, or allegations of fraud received by the BAOB (e.g. from complaints or whistleblower reports, newspaper reports and notices of early termination of the statutory auditor's mandate). When an oversight file is opened at the BAOB's initiative, the BAOB's Secretary-General may also take into consideration information received from other authorities or third parties.

Some of these files have a considerable societal impact and demand a lot of review resources from the BAOB. However, investigating these files is important to bolster trust in the services provided by registered auditors.

In handling the oversight files, the BAOB considers it very important to assess each file on its individual characteristics, without bias and without regard to subsequent events.

8.1. Handling of complaints

In 2023, the BAOB **received 28 complaints**. Of these, **23 were admissible** and 5 were inadmissible.

In three files, the BAOB Committee imposed at least one measure. One complaint prompted the opening of an investigation file. Two files were closed with no action taken. The remaining files are still being dealt with.

The BAOB received complaints from several parties. This included both registered auditors and clients of registered auditors, as well as users of financial information (such as shareholders and clients of audited entities).

The complaints covered very diverse topics:

- 8 complaints about the performance of a statutory auditor mandate;
- 2 complaints about the performance of another statutory audit engagement;
- 2 complaints about the performance of an appraisal by a court-appointed expert;
- 4 complaints about accounting activities;
- 3 complaints of unlawful practice of the profession;
- 4 complaints about possible infringements of ethical standards.

The number of complaints is not necessarily representative of the importance of the issues raised in them.

8.2. Handling of whistleblower reports

To meet the requirements of the Law of 28 November 2022 and the Royal Decree of 22 January 2023, the BAOB adjusted its existing procedures for whistleblower reports ('reports') in February 2023. Anyone who identifies a breach or potential breach of the legislative and regulatory framework overseen by the BAOB may report it to the BAOB as a whistleblower.

Whistleblowers can make reports to the BAOB in four ways:

- by electronic form available on the website⁷¹;
- by written report in the form of a letter;
- by telephone; and
- by report submitted in person.

Whistleblowers may submit their report either anonymously or with disclosure of identity. The law provides protection for individuals who report a breach to the BAOB in good faith. The BAOB protects the confidentiality of whistleblowers' identities. Whistleblowers acting in good faith may disclose to the BAOB information that is, in principle, confidential.

All registered auditors are responsible for setting up their own internal reporting channel, even if they do not have any employees.

The BAOB refers to its web page dedicated specifically to whistleblowers⁷².

The BAOB received 12 whistleblower reports in 2023, of which only one was admissible. The other 11 reports were found inadmissible.

Registered auditors and audit firms also are responsible for setting up their own internal reporting channel, even if they do not have any employees. Indeed, under the Law of 28 November 2022, registered auditors qualify as financial service providers, which means that whistleblowers wishing to report breaches, whether or not in a work-related context (employees, self-employed, shareholders, etc.), must have access to this internal reporting channel. However, audit firms with fewer than 250 employees are not obliged to receive anonymous reports.

8.3. Auditors Annual Cartography

Under Article 55 of the Law of 7 December 2016, the BAOB collects information on an annual basis in the form of an 'Auditors Annual Cartography'. The BAOB uses this information to fulfil its oversight task.

In accordance with Decision 2022/01⁷³ issued by the BAOB, all registered auditors who are natural persons (except indisposed auditors) and audit firms listed in the public register must complete this survey annually. The BAOB is committed to fine-tuning its risk-based approach with an increased focus on data collection and quality. With this in mind, in 2023, it made a number of changes to the Cartography, as explained in detail in the user guide of 25 October 2023. Specifically, the BAOB asked the sector additional questions about the audited entities, how the audit engagements are performed and the approach to combating ML/TF.

The BAOB is the sole owner of the data in the Cartography. All information about the Auditors Annual Cartography can be found on a web page specifically dedicated to this topic⁷⁴.

⁷¹ This form is available on <https://www.ctr-csr.be/en/ctr-csr/whistleblowing-baob>.

⁷² See the page on whistleblowers on the BAOB website: <https://www.ctr-csr.be/en/faq/whistleblowers>

⁷³ https://www.ctr-csr.be/sites/default/files/media/files/2022-11/decision_csr_2022_01.pdf (French and Dutch only).

⁷⁴ <https://www.ctr-csr.be/fr/ctr-csr/auditors-annual-cartography> (French and Dutch only).

8.4. Dialogue with the sector on audit quality, ISQM and integrity

In 2023, the BAOB engaged in dialogue, over a period of six months, with all PIE audit firms and a representative sample of non-PIE audit firms in order to enhance its understanding of the challenges in the sector.

This has enabled the BAOB to deepen its insights into the challenges faced by the sector and how audit firms intend to improve audit quality by applying the new International Standards on Quality Management (ISQM) and remain vigilant as regards integrity risks, such as the risks of fraud and ML/TF. As such, this dialogue contributes to the BAOB's proportionate and risk-based oversight.

Without being exhaustive, the following key discussion points were addressed⁷⁵: the attractiveness of the profession; fees; regulatory framework and the trend of de-risking; implementation of ISQM1; vigilance for integrity risks; and sustainability reporting as required under the Corporate Sustainability Reporting Directive (CSRD).

8.5. Early termination of the statutory auditor's mandate

Pursuant to **Article 3:66 of the CAC**, the audited entity and the statutory auditor must notify the BAOB regarding the dismissal or resignation of the statutory auditors during their mandate. They must also adequately explain the reasons for this.

The BAOB has decided⁷⁶ to modify the rules concerning the notification of early termination of the statutory auditor's mandate to facilitate digital reporting and more efficient data usage in the context of its oversight activities.

To this end, it has developed a new tool for notifying the BAOB of the early termination of the statutory auditor's mandate: the **EARLY END report in the FiMiS application**. With effect from 14 February 2023, registered auditors and audited entities are required to use this tool to fulfil their information obligation.

8.5.1. Scope of application *ratione personae*

The BAOB's decision regarding the rules on reasoned notifications applies to registered auditors performing the statutory audit of an entity's financial statements or consolidated financial statements.

Firstly, this decision is targeted at the mandatory statutory auditor mandates granted when the law requires a statutory auditor to be appointed. Entities that are required to appoint a statutory auditor are large⁷⁷ companies, non-profit associations and foundations. Small listed companies, small PIE companies and companies that are part of a group with mandatory consolidated reporting are also always required to appoint a statutory auditor.

Secondly, this decision also covers statutory auditor mandates in the case of entities that have voluntarily appointed a statutory auditor.

⁷⁵ The BAOB refers to its Insight of 14 December 2023, 'Dialogue with the sector: enriching and to be repeated', available on https://www.ctr-csr.be/sites/default/files/media/files/2023-12/231214_dialogue_sector_en.pdf

⁷⁶ Decision of the BAOB of 26 January 2023, 'Interruption anticipée de mandat de commissaire – Notification motivée au CSR', available on https://www.ctr-csr.be/sites/default/files/media/files/2023-02/ctr_beslissing_20230126.pdf (French and Dutch only).

⁷⁷ In 2023, a company or a non-profit association / foundation was considered a large organisation and therefore obliged to appoint a statutory auditor if it exceeded at least two of three of the following criteria: annual average number of employees: 50; annual turnover (excluding VAT): EUR 9.000.000; balance sheet total: EUR 4.500.000.

Early termination of a statutory auditor's mandate refers to a **termination of the mandate before the statutory three-year term has expired**. There are two ways in which the mandate can be terminated⁷⁸:

- **dismissal at the initiative of the audited entity;**
- **voluntary resignation of the statutory auditor.**

Regardless of the reason for the termination, both parties are required to report this to the BAOB.

8.5.2. EARLY END report in FiMiS for collecting information

In 2023, registered auditors and their audited entities have collectively submitted **550 EARLY END reports**. The most common reason for the early termination of the statutory auditor's mandate (approx. 60% of the reports) appears to be the rotation of the statutory auditor at the group level.

As in the case of the annual cartography (see above), the reports must be submitted in the online application FiMiS, developed by the FSMA. The BAOB website provides separate web pages for registered auditors⁷⁹ and for audited entities⁸⁰ to submit this report. Depending on the identity of the website visitor ('Réviseurs d'entreprise' / 'Bedrijfsrevisoren' for auditors and 'Utilisateurs de l'information financière' / 'Gebruikers financiële info' for financial information users), the web page includes a button that provides direct access to the appropriate reporting form and a user guide.

⁷⁸ The IRE-IBR has published Opinion 2019/10 on the early termination of the auditor's mandate: <https://www.ibr-ire.be/docs/default-source/nl/Documents/regelgeving-en-publicaties/rechtsleer/adviezen/2019-10-advies-Onderbreking-van-het-commissarismandaat-EN.pdf>. This opinion provides information on the dismissal or resignation of the statutory auditor in place and the appointment of a successor.

⁷⁹ <https://www.ctr-csr.be/fr/ctr-csr/interruption-anticipee-du-mandat-de-commissaire-notification-motivee-au-csr-par-0> (French and Dutch only).

⁸⁰ <https://www.ctr-csr.be/fr/ctr-csr/interruption-anticipee-du-mandat-de-commissaire-notification-motivee-au-csr-par-application> (French and Dutch only).



9 ENFORCEMENT

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Enforcement is the cornerstone of a strong oversight authority that acts proportionately in the public interest and, through its actions, ensures that trust in the sector is upheld.

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

9.1. Overview of decisions the BAOB can take

At the conclusion of a quality review, the College has several decisions it can take. The vast majority of these are preventive measures. When deficiencies are identified, the BAOB will decide on the most appropriate action to take based on all the relevant elements of the individual file.

Reprimands

Under Article 57, § 5 of the Law of 7 December 2016, the BAOB may reprimand the auditor in cases where it is established that the auditor has committed the breaches but these do not justify the imposition of a compliance deadline.

When the BAOB considers imposing a reprimand on the auditor, the auditor is entitled to a written hearing before the BAOB takes a final decision on the alleged breaches and the measures it is considering based on those breaches.

Compliance deadlines

When the BAOB imposes a compliance deadline on the auditor under Article 57, § 1, first paragraph of the Law of 7 December 2016, the auditor must take the necessary measures to remedy the identified deficiencies and ensure compliance with the relevant provisions.

The auditor must demonstrate to the BAOB that the deficiencies have been duly remedied by submitting, within a set deadline, the details of the measures taken as well as the relevant supporting documents.

For deficiencies for which a compliance deadline has been imposed, the BAOB may at any time decide to carry out a new inspection to assess the correct implementation and application of the relevant legal and regulatory provisions.

If the auditor remains in default after the expiry of the compliance deadline, the BAOB may, under Article 57, § 1, third paragraph of the Law of 7 December 2016 and after having heard or summoned the auditor, communicate its opinion regarding the findings, impose an incremental penalty payment or order the auditor to refrain from exercising all or a specific part of their professional activities for a specified period of time.

Injunctions

When the BAOB imposes an injunction on the auditor under Article 116/2, § 1 of the AML Law, the auditor must take the necessary measures to remedy the identified deficiencies and ensure compliance with the relevant provisions.

The auditor must demonstrate to the BAOB that the deficiencies have been duly remedied by submitting, within a set deadline, the details of the measures taken as well as the relevant supporting documents.

For deficiencies for which an injunction has been imposed, the BAOB may at any time decide to carry out a new inspection to assess the correct implementation and application of the relevant legal and regulatory provisions.

If the auditor remains in default after the expiry of the imposed deadline, the BAOB may, under Article 116/2, § 2 of the AML Law and after having heard or summoned the auditor, impose an incremental penalty payment or order the auditor to refrain from exercising all or a specific part of their professional activities for a specified period of time.

Recommendations

When the BAOB issues a recommendation under Article 52, § 6, second paragraph of the Law of 7 December 2016, the auditor must take the necessary measures to remedy the identified deficiencies and ensure compliance with the relevant provisions.

In order to demonstrate to the BAOB that the deficiencies that are the subject of the recommendation have been addressed appropriately, the auditor must submit, within a set deadline, the details of the measures as well as the relevant supporting documents.

Failure by the auditor to comply with the recommendation may, where appropriate and depending on the severity of the deficiencies identified, give rise to the imposition of measures as referred to in Article 57 and/or administrative measures or pecuniary sanctions as referred to in Article 59 of the Law of 7 December 2016.

Points requiring attention

When the BAOB issues a point requiring attention, it expects the auditor to take the necessary measures to improve the quality of their procedures and/or activities, with no obligation to inform the BAOB of the details of the measures taken.

Referral to the Sanctions Committee of the FSMA

For serious deficiencies, the BAOB may also decide to refer the matter to the Sanctions Committee of the FSMA and initiate a procedure that may lead to the imposition of administrative measures and pecuniary sanctions. A specific chamber has been set up within the Sanctions Committee for such measures and sanctions. This chamber is composed of six magistrates and two other members with expertise in audit matters.

In exercising its power to refer matters to the Sanctions Committee, the BAOB pays particular attention to deficiencies that could have an impact on the user's judgment of the financial information, deficiencies that relate to the audit of listed companies or entities with significant social or financial impact, deficiencies relating to ethical requirements, and repeated deficiencies. The BAOB also ensures that auditors perform sufficient and appropriate audit procedures to be able to express an adequate opinion on the financial statements.

9.2. Decisions taken by the BAOB

This section provides an overview of the figures relating to the measures taken by the BAOB in individual quality review and oversight files in 2023.

However, for various reasons, the reader should be careful not to draw quick conclusions based solely on the number of measures.

Firstly, the number of oversight files varies from year to year. The BAOB deals both with files opened in that calendar year and with files opened in previous calendar years.

The scope of the oversight varies from year to year and even from file to file. This also applies to the number of auditors reviewed in a calendar year and their risk profiles, as well as the scope and themes retained for the review. Therefore, the initiation of – efficiently conducted – thematic reviews may have a significant impact on the number of breaches detected and thus influence the results from year to year. The number of oversight files still under review and the efforts required to complete the various files also affect the results for each calendar year.

Regarding the quality reviews, the selection of registered auditors and audit firms is based on the oversight cycle of at least three years for PIE auditors and audit firms and at least six years for non-PIE auditors and audit firms. The selection also includes auditors and audit firms that are considered as having a higher risk of lower audit quality. Finally, selections are always supplemented by entities selected at random. Since the selection of registered auditors and audit firms changes every year, the results of the quality reviews are not directly comparable from year to year.

In addition, when interpreting the number of measures, it is important to note that the BAOB Committee considers each breach separately and imposes a measure for each breach. Only in the exceptional case that breaches are the same or very similar in nature does the BAOB Committee impose a single measure for multiple breaches. This method of working is an efficient way of gaining insight into the nature of the different types of breaches and analysing them effectively. This may differ from the approach followed by other oversight authorities, which is relevant when assessing the figures for Belgium in reports from international institutions.

The summary table below does not include the points requiring attention issued by the BAOB, nor the files in which the BAOB did not identify any breaches or files that have become irrelevant due to the de-registration of the auditor.

	Reprimands		Compliance deadlines		Injunctions		Recommendations		TOTAL	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Quality review files	20	18	67	84	43	87	128	215		
Of which non-PIE	10*	8	64*	79	23*	52	57*	131		
Of which PIE	10	10	3	5	20	35	71	84		
Oversight files	2	2	11	4	5	0	3	0		
TOTAL	22	20	78	88	48	87	131	215	279	410

** These figures differ from those included in Section 6.4 'Quality reviews of non-PIE auditors' of this annual report. This is because the above table covers the decisions taken by the BAOB in 2023, while Section 6.4 'Quality reviews of non-PIE auditors' relates to the quality review files for the 2022 quality review campaign.*

The table above shows that the BAOB took a total of 279 measures in 2023, compared to 410 in 2022.

In the quality reviews of non-PIE auditors handled by the BAOB Committee in 2023, the figures fluctuated most sharply in terms of the number of recommendations (57 in 2023 compared to 131 in 2022) and injunctions (23 in 2023 compared to 52 in 2022). This is mainly on account of the lower number of non-PIE auditors and audit firms in scope.

In 2023, the BAOB decided to impose compliance deadlines in two files involving three registered auditors. Given the urgency of the circumstances, it decided to accompany these compliance deadlines with a temporary ban on the performance of all activities and to suspend the registration of these auditors in the public register.

A suspension means, in principle, that these auditors are no longer allowed to use or allude to their title of auditor during the aforementioned period, including, but not limited to, using this title under their signature, on their letterhead, on social media or on websites. The suspensive ban covers all audit procedures that a registered auditor is permitted to perform under the Law of 7 December 2016 and the procedures that a registered auditor is permitted to perform under the Law of 17 March 2019 on the professions of accountant and tax consultant. Such procedures cannot be performed during this period, not even via subcontracting or any other means, unless decided otherwise by the BAOB Committee.

9.3. Investigation files

When there are strong indications of the existence of a practice that may give rise to the imposition of an administrative measure or pecuniary sanction, the Secretary-General of the BAOB may decide to initiate an investigation file. The Secretary-General then undertakes various investigative actions, based on which a report is submitted to the BAOB Committee.

All investigation files initiated by the Secretary-General are handled by the BAOB Committee. Only the BAOB Committee is competent to decide on the appropriate action to be taken based on the final investigation reports of the Secretary-General. It may decide to refer the matter to the Sanctions Committee of the FSMA, to impose appropriate measures itself or to close the case without further action.

At the beginning of 2023, there were around 30 open investigation files. The facts constituting the subject of an investigation file include, but are not limited to, the inadequate performance of audit procedures during an audit engagement, the unlawful practice of the profession of a registered auditor, non-compliance with the requirements of independence, the wrongful addition of documents to an audit file and the lack of a principal activity.

The BAOB Committee **took decisions in 10 files** and decided to **refer nine files to the Sanctions Committee of the FSMA.**

9.4. Decisions of the Sanctions Committee

Decision of 15 September 2023 – Breaches of the Continuing Professional Development Standard – Breach of Article 27 of the Law of 7 December 2016 – Breach of Article 29, § 1, of the Law of 7 December 2016 – Withdrawal of status – Pecuniary sanction – Publication by name

On 15 September 2023, the Sanctions Committee of the FSMA decided to withdraw the status of registered auditor held by a temporarily inactive auditor-natural person, as well as to impose a pecuniary sanction of EUR 2.000 and publish this decision for a period of six months mentioning the auditor by name.

Firstly, the Sanctions Committee found that the registered auditor in question had committed a breach of Articles 1, § 1, and 5, § 3, 1° and 2°, of the Continuing Professional Development Standard⁸¹. It was established that the auditor had not attended the minimum number of training hours required under these provisions within the period provided for this purpose.

Moreover, the Sanctions Committee decided that, on account of the above, the auditor had not pursued her professional development in a continuous manner so as to maintain a sufficient level of theoretical knowledge, professional competence and professional ethics and was, therefore, in breach of Article 27 of the Law of 7 December 2016.

Finally, the Sanctions Committee decided that there was also a proven breach of the appropriate dignity required under Article 29, § 1 of the Law of 7 December 2016. Through the deliberate and continued failure, over several years, to fulfil the continuing professional development obligation, even after the intervention of the BAOB and after the expiry of a compliance deadline, the registered auditor had behaved in a manner incompatible with the dignity of the profession. This led to the erosion of public confidence in the high level of expertise and professional ethics required from someone entitled to bear the title of registered auditor. What is important here is not whether the auditor performs audit engagements but whether they are entitled to use the title of registered auditor even if their status is that of a temporarily inactive auditor.

Taking into account, on the one hand, all the relevant circumstances, including the gravity and duration of the breach and the degree of responsibility of the party, and on the other hand, the lack of any prior sanctions against the auditor in question and the absence of any loss or damage suffered by third parties, the Sanctions Committee deemed the withdrawal of the status of registered auditor, a pecuniary sanction of EUR 2.000 and a publication by name for six months to be an appropriate and proportionate sanction.

No appeal was filed against this decision in the Market Court.

Decision of 15 September 2023 – Breaches of the Continuing Professional Development Standard – Breach of Article 27 of the Law of 7 December 2016 – Breach of Article 29, § 1, of the Law of 7 December 2016 – Withdrawal of status – Pecuniary sanction – Publication by name

On 15 September 2023, the Sanctions Committee of the FSMA issued a second decision with respect to a file involving very similar facts as the one summarised above. Apart from the specification of the articles of the Continuing Professional Development Standard which had been breached (in this case, Article 5, § 3, 1°) and the identity of the party, this decision is identical, in all aspects relevant to a summary thereof, to the decision summarised above, which is being referred to here.

Decision of 15 September 2023 – Breach of Article 313, § 1, section 1, of the Companies Code⁸² – Breach of the IRE-IBR standards on the monitoring of contributions in kind and quasi-contributions⁸³ – Breach of Article 13, § 1, and Article 14, § 1 and § 3 of the Law of 22 July 1953 – Breach of Articles 2 and 3 of the Royal Decree of 10 January 1994 – Reprimand – Anonymous publication

On 15 September 2023, the Sanctions Committee decided to issue a reprimand against a registered auditor and to publish the decision anonymously.

⁸¹ This standard of 30 August 2007 has since been abrogated and replaced by the standard of the IRE-IBR of 29 January 2021 on continuing professional development. This new standard entered into effect on 1 January 2022.

⁸² The Companies Code has since been abrogated by the Law of 23 March 2019 implementing the Companies and Associations Code and various other provisions.

⁸³ The IRE-IBR Standards of 1 April 2002 for the monitoring of contributions in kind and quasi-contributions.

Given the special circumstances where there was a clear reason to doubt the veracity of the communicated dates of a dividend pay-out and of the contribution in kind of the entitlement to the dividend and within a context where strict deadlines had to be met in order to benefit from a favourable tax rate, by merely relying on the declarations of the client's accountant to prepare a report in March 2014 concerning the contribution in kind without being designated thereto by the management body and, moreover, by preparing all the to-be-verified company law documents, including a mention of the questionable dates in December 2013, the registered auditor committed a breach of the following provisions:

- Article 313, § 1, section 1, of the Companies Code, namely by preparing a report on the contribution in kind without being designated thereto by the management body of the company that was increasing its capital;
- Articles 1.2.3, section 1, 2.2.4 and 2.2.6 of the IRE-IBR standards on the monitoring of contributions in kind and quasi-contributions as applicable at the time of the facts, namely by preparing the company law documents himself instead of the accountant or the client, under circumstances where he should have refused the engagement; by preparing his audit report without having received a draft special report from the management body; by finalising his audit report without further investigation of the veracity of the communicated date of the general meeting where the decision to pay an interim dividend was supposedly made;
- Article 14, § 1 and § 3, of the Law of 22 July 1953, namely by preparing, in violation of the independence requirement and under pressure from the client's accountant, the company law documents intended to establish the reality of the payment of an interim dividend that underpins the transaction to which his audit report relates (the contribution in kind of the entitlement to this dividend);
- Article 13, § 1, of the Law of 22 July 1953 and Articles 2 and 3 of the Royal Decree of 10 January 1994, since the preparation of the audit report and company law documents under the given and special circumstances qualify as acts incompatible with the dignity of the position of registered auditor within the meaning of Article 13, § 1, of the Law of 22 July 1953 and as acts contrary to the principles of dignity, integrity and discretion within the meaning of Article 3 of the Royal Decree of 10 January 1994.

Taking into account all the relevant circumstances (in particular, the lapse of time since the facts dating back to 2014, which was identified as a important element for reduction of penalty), the Sanctions Committee has decided to issue a reprimand against the registered auditor, notwithstanding the gravity of the established facts which in themselves require a more severe sanction.

Moreover, in accordance with the milder criminal law applicable at the time of the facts (Article 74 of the Law of 22 July 1953), it was decided to publish the decision anonymously.

No appeal was filed against this decision of the Sanctions Committee in the Council of State.

In addition, six other files were referred to the Sanctions Committee pursuant to Article 58 of the Law of 7 December 2016.

Three of these files were handled at a hearing in the autumn of 2023. Two other files were handled at a hearing in late January 2024. The last file will be handled at a hearing in late June 2024.



10 CHALLENGES FOR 2024

Due to the emergence of new risks and opportunities, the environment in which registered auditors operate is constantly evolving, as are the trends and risks identified by the BAOB at the start of each new year.

Inflation-related cost increases and geopolitical uncertainty due to military conflicts in Ukraine and the Middle East, with a varying intensity of impact across sectors, create uncertainty about the financial figures of economic actors, the recoverability of their receivables and the valuation of their tangible and intangible assets.

Both the long-term trends that were identified by the BAOB in 2023 will continue to be present in 2024 and will impact the profession in the years ahead.

The first long-term trend is that of digitisation and technological evolution, including the introduction of AI⁸⁴ models accompanied by greater opportunities for data exploitation and automation.

Digitisation is changing the nature of the audited companies, creating the need for adjustments in audit procedures. For example, increased digitisation allows for real-time reporting, offering access to additional data alongside the formal reports providing insight into a company's performance. This allows auditors to design their audits more efficiently and effectively, including through the application of data analysis. Larger audit firms are investing heavily in digitisation and want to make increased use of technology and data analytics for their audit procedures. This brings opportunities, but also risks. Technology and data analytics can enhance audit quality, but they also give rise to issues regarding the reliability of these techniques, evidentiary value with respect to the BAOB and third parties, management of the IT environment and vulnerability to cybercrime.

Cybersecurity is a universal operational risk that requires constant vigilance on the part of the audit firms. Data integrity of audit files through an appropriate organisational set-up should therefore be the primary concern of every auditor. In this regard, the BAOB will continue to focus on the timely assembly of the final audit file and the auditor's respect for the integrity of the data in their audit files.

New trends in the value creation of economic actors also partly explain the increasing importance of the availability of non-financial information and increase the relevance of new risks, such as those relating to sustainability and cyber incidents. These trends are themselves at the source of delicate valuations of intangible assets linked to intellectual property rights, supply chain know-how and digital business operations. The same goes for virtual assets, which pose significant challenges for auditors. The increased focus on sustainability is the second long-term trend that will have an impact on the profession.

The European Corporate Sustainability Reporting Directive (CSRD) is expected to be transposed into Belgian law in 2024. For financial years starting on or after 1 January 2024, large issuers will have to report on non-financial information (NFI) based on the European Sustainability Reporting Standards (ESRS). Over time, a greater number of companies will have to implement sustainability reporting requirements.

The CSRD also requires an external auditor / assurance provider to offer limited assurance regarding the non-financial information prepared on the basis of the ESRS. Companies still have significant work ahead of them on non-financial reporting, and the availability of sustainability data can also be a focus area in this respect. Consequently, audit firms will have the opportunity to provide assurance on sustainability reporting as of 2025. This presents opportunities as well as challenges for the profession, in terms of knowledge acquisition and human resources.

Moreover, these shifts come on top of the existing challenges, such as the need to enhance audit quality, maintaining the focus on going concern and integrity risks, and recruiting and retaining expert staff.

84 Artificial intelligence.

A common problem for many economic sectors, the recruitment issue represents an operational risk for auditors as well. In addition, interest in studying accountancy is declining in comparison to other subjects, while demand for audits by registered auditors is increasing. Society also has increasingly higher expectations from the profession and this combined with a complex regulatory framework further necessitates a process of continuous training and adaptation, leading to the risk of an increasing outflow from an ageing sector. The need for adequate staff is greater for those who wish to specialise in auditing sustainability reporting in future.

Some firms are resorting to outsourcing their activities, including abroad, to meet staff shortages or allow for expansion. However, outsourcing requires proper knowledge, monitoring and supervision of the outsourced activity and should never result in firms simply abandoning their responsibilities. With the ageing of the accounting sector, increasing regulatory requirements and rising costs of digitisation, some audit firms are trying to scale up via partnerships (possibly with private equity investors) and consolidation, which is a trend that is expected to continue in the coming years.

All audit firms, without exception, must ensure that they devote sufficient time and resources to their audits. There is a risk that an auditor may be unable to pass on the costs of the time investment to their client and therefore decide to incorrectly base their opinion on inadequate procedures. This risk is greater if the auditor participates in public tenders which do not take into account or which underestimate the quality of the services to be provided, and the contract is simply awarded to the lowest bidder. This creates the risk of auditors accepting engagements on financial terms that do not cover the necessary time investment for the procedures required based on the legislative and regulatory framework.

Therefore, a particular concern for the BAOB is that audit quality should not decline at the expense of the users of financial information. Stakeholders must be assured that the reports delivered are always based on adequate knowledge and resources. The BAOB takes this concern into account in its risk-based approach.

The involvement of audit firms in integrity incidents at their clients – due to money laundering, terrorist financing, rogue organisations or other forms of white-collar crime (whether organised or otherwise) – is an ever-present risk. This integrity risk certainly exists for clients with international operations, but even companies with only domestic operations are exposed to this risk, which is even high in some sectors such as real estate transactions, used vehicles, luxury goods, virtual assets, etc. This high ML/TF risk requires an appropriate and enhanced level of vigilance. The necessary expertise and adequate time budgeting are also required.

The increased focus on these risks at audit firms may cause firms to reject clients with adverse risk profiles (de-risking). As a result, there is a risk that these clients will either find it more difficult to find a registered auditor or decide not to appoint one (even if this is in violation of legal requirements), or they will appoint a registered auditor who does not have the expertise to adequately identify risks.

Last but not least, society also expects an increasing alertness with respect to integrity risks.

The BAOB takes these concerns into account in its risk-based approach.



11 LIST OF ABBREVIATIONS

AML	Anti-money laundering, as defined in the AML Law.
AML Law	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.ejustice.just.fgov.be/eli/loi/2017/09/18/2017013368/justel (French and Dutch only).
AMLCO	Anti-Money Laundering Compliance Officer, as referred to in Article 9, § 2 of the AML Law. The AMLCO's responsibilities include monitoring the implementation of the ML/TF policies, procedures and internal controls, analysing atypical transactions and preparing the relevant written reports to ensure appropriate follow-up where necessary, and reporting any suspicions and additional information to CTIF-CFI.
BAOB	Belgian Audit Oversight Board, established under Article 32 of the Law of 7 December 2016.
Beneficial owner	Beneficial owner as referred to in Article 4, 27° of the AML Law, i.e. the natural person(s) who ultimately own(s) or control(s) the client, the client's agent or the beneficiary of life insurance contracts and/or the natural person(s) on whose behalf a transaction is performed or a business relationship is established.
Big Four	The four largest audit firms, i.e. Ernst & Young, Deloitte, KPMG and PricewaterhouseCoopers.
CAC	Companies and Associations Code, http://www.ejustice.just.fgov.be/eli/loi/2019/03/23/2019A40586/justel (French and Dutch only). http://www.ejustice.just.fgov.be/eli/loi/2019/03/23/2019A40586/justel .
CEAOB	Committee of European Auditing Oversight Bodies, as referred to in Article 30 of Regulation (EU) No 537/2014.
Companies Code	Companies Code, https://www.ejustice.just.fgov.be/cgi_loi/change_lg.pl?language=fr&la=F&cn=1999050769&table_name=loi (French and Dutch only).
Consultative assembly	Consultative assembly for public oversight of the profession of registered auditors, as referred to in Article 63 of the Law of 7 December 2016.
CSPE-HREB	High Council for Economic Professions (<i>Conseil supérieur des professions économiques – Hoge Raad voor de Economische Beroepen</i>), established under Article 54 of the Law of 22 April 1999 on accounting and tax professions.
CSRD Directive	Corporate Sustainability Reporting Directive or Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards. Text with EEA relevance: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32022L2464 .
CTIF-CFI	Financial Intelligence Processing Unit (<i>Cellule de traitement des informations financières – Cel voor Financiële Informatieverwerking</i>), as referred to in Article 76 of the AML Law.
Data Protection Authority	Authority established by the Law of 3 December 2017 establishing the Data Protection Authority.
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 Text with EEA relevance: https://eur-lex.europa.eu/eli/dir/2006/43/o .
EEA	European Economic Area.
EQCR	Engagement Quality Control Review.

ESEF	European Single Electronic Format.
EU	European Union.
FATF	Financial Action Task Force.
Fourth AML 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. Text with EEA relevance: https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32015L0849 .
FPS Economy	Federal Public Service Economy, SMEs, Self-Employed and Energy.
FSMA	Financial Services and Markets Authority.
GDPR	General Data Protection Regulation.
IAASB	International Auditing and Assurance Standards Board.
ICCI	Information centre for registered auditors (<i>Informatiecentrum voor het bedrijfsrevisoraat – Centre d'information du révisorat d'entreprises</i>).
IFIAR	International Forum of Independent Audit Regulators.
IRE-IBR	Institute of Registered Auditors (<i>Institut des Réviseurs d'Entreprises – Instituut van de Bedrijfsrevisoren</i>).
IRE-IBR standard of 27 March 2020	Standard of the IRE-IBR of 27 March 2020 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.
ISAE	International Standard on Assurance Engagements.
ISAs	International Standards on Auditing.
ISQC 1	International Standard on Quality Control.
ISQM	International Standard on Quality Management.
ITAA	Institute for Tax Advisors and Accountants.
Law of 22 July 1953	Law of 22 July 1953 establishing an Institute of Registered Auditors and organising the public oversight of the profession of registered auditor, https://etaamb.openjustice.be/fr/loi-du-22-juillet-1953_n2009000714 (French and Dutch only).
Law of 28 November 2022	Law of 28 November 2022 on the protection of whistleblowers reporting breaches of Union or national law identified within a legal entity in the private sector, https://www.ejustice.just.fgov.be/eli/loi/2022/11/28/2022042980/moniteur (French and Dutch only).
Law of 7 December 2016	Law of 7 December 2016 relating to the organisation of the profession and the public oversight of registered auditors, http://www.ejustice.just.fgov.be/eli/loi/2016/12/07/2016011493/justel (French and Dutch only).
ML/TF	Money laundering and terrorist financing.
NBB	National Bank of Belgium.
Non-PIE	Organisations other than public-interest entities.
Non-PIE auditors	Auditors that do not audit a PIE that individually exceeds more than one criterion as referred to in Article 1:26 of the CAC.
PCAOB	Public Company Accounting Oversight Board.

PEP	<p>Politically exposed persons, defined in Article 4, 28° of the AML Law as “a natural person exercising or having exercised prominent public functions. This includes in particular:</p> <p>heads of state, heads of government, ministers and secretaries of state; members of Parliament or members of similar legislative bodies; members of the governing bodies of political parties;</p> <p>members of supreme courts, constitutional courts or other senior jurisdictions (including administrative ones) whose decisions are not subject to appeal other than in special cases;</p> <p>members of central banks’ courts of auditors, councils or management boards; ambassadors, consuls, chargés d’affaires and senior officers in the armed forces;</p> <p>members of the administrative, managerial or monitoring bodies of state-owned companies; directors, deputy directors and members of the board or persons occupying an equivalent position of an international organisation;</p> <p>natural persons exercising a function considered to be an important public function included on the list published by the European Commission under Article 20bis, third paragraph of Directive 2015/849. The public functions referred to in points a) to i) do not include middle-ranking or more junior functions.” (free translation).</p>
PIE	<p>Public-interest entity, defined in Article 1:12 of the CAC as “listed companies whose shares, redeemed shares or certificates relating to these shares are admitted to trading on a 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 deemed equivalent to settlement institutions” (free translation).</p>
PIE auditors	<p>Auditors that audit one or more PIEs that individually exceed more than one criterion as referred to in Article 1:26 of the CAC.</p>
Regulation (EU) No 537/2014	<p>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. Text with EEA relevance: https://eur-lex.europa.eu/eli/reg/2014/537/oj.</p>
Royal decree of 10 January 1994	<p>Royal decree of 10 January 1994 on the duties of registered auditors.</p>
Royal decree of 22 January 2023	<p>Royal Decree of 22 January 2023 designating the competent authorities for the implementation of the Law of 28 November 2022 on the protection of reporters of breaches of Union or national law established within a legal entity in the private sector.</p>
Sanctions Committee	<p>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.</p>
Standard on continuing professional development	<p>IRE-IBR standard of 30 August 2007 on continuing professional development.</p>

Responsible publisher

Bénédicte Vessié, Congresstraat 12-14 rue du Congrès, 1000 Brussels

Photography

Christophe Vander Eecken, Shutterstock, iStock

Layout

Gamma bv

Printing

Bredero Graphics



WWW.CTR-CSR.BE