Key foundations for high-quality reporting: Good practices of monitoring and enforcement, and compliance

Presented by

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Chair, Thirtieth session of ISAR
Belgium

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Case Study - Belgium

David Szafran
Chair, 30th Session of ISAR
Agenda
Case Study - Belgium
Country Overview
1. Country Overview
General Economic Setting

- GDP (2013): € 396 bl.
- Export 80% GDP
- 0.82% world economy
- 10th largest exporting country (WTO)
- Int’l organisations, subsidiaries & branches
- 16 High-level universities
1. **Country Overview**

**Entities – Organisations - Institutions**

<table>
<thead>
<tr>
<th>Entities</th>
<th>Organisations</th>
<th>Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>25,000 Audited entities</td>
<td>HCEP/CIDT</td>
<td>FSMA</td>
</tr>
<tr>
<td>1,055 Registered Auditors</td>
<td>6,498 Chartered Accountants (2/3 in public practice + 1/3 in business)</td>
<td>4,974 Bookkeepers</td>
</tr>
<tr>
<td>512 Audit Firms</td>
<td>3,295 Accounting Firms</td>
<td>3,560 Bookkeepers Firms</td>
</tr>
<tr>
<td>IBR/IRE</td>
<td>IAB/IEC</td>
<td>BIBF/IPCFF</td>
</tr>
<tr>
<td>184 Listed Companies (7 foreign issuers)</td>
<td>NBB</td>
<td>44 Credit Institutions</td>
</tr>
</tbody>
</table>
1. Country Overview

Standards

**Accounting**
- Belgian GAAP
- IFRS (consolidated accounts listed companies)

**Audit – ISAs**
- PIEs (2012-)
- PIEs & non-PIES (2014-)

**Corporate Governance Codes (2009)**
- Listed companies
- Non-listed companies
1. Country Overview

Sources

- europa.eu.int
- mineco.fgov.be
- www.nbb.be
- www.fsma.be
- www.oversight-audit-belgium.eu
- www.ibr-ire.be
- www.iab-iec.be
- www.bibf-ipcf.be
Financial Reporting
2.1. Financial Reporting
Regulatory basis

Compulsory Statutory Audit

- Public Interest Entities
  - Listed companies
  - Credit Institutions
  - Insurance Companies
- Large companies: 100 employees or 2 criteria's during 2 years:
  - net turnover of € 7,300,000
  - balance sheet total € 3,650,000;
- 50 employees
- Large not-for profit associations
2.2. Financial Reporting

Institutional Setting

- **FSMA**
  - Listed companies
  - Financial Markets
  - Supervision of pension funds, ...

- **NBB**
  - Supervision of credit institutions
  - Supervision of insurance companies, ...

- **European Central Bank**
  - Supervision of credit institutions (04.11.2014)
  - SSM, EMS, ...
2.3. Financial Reporting
Resources (2013)

FSMA
- 282 FTE
- € 89 mio. total balance sheet
- Supervision of listed companies & surveillance of Financial Markets
- Enforcement – Secretariat General

NBB
- 2,071 FTE
- 77,8 bio. total balance sheet
## 2.4. Financial Reporting

### Enforcement

<table>
<thead>
<tr>
<th>FSMA</th>
<th>NBB</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Supervision of the financial markets and listed companies</td>
<td>• Administrative fines</td>
</tr>
<tr>
<td>• Supervision of certain categories of financial institutions</td>
<td>• Publication of decisions (the name of the institution is disclosed, unless if this disclosure could impair the financial stability or cause a disproportionate prejudice to the institution or the persons involved )</td>
</tr>
<tr>
<td>• Compliance by financial intermediaries with codes of conduct</td>
<td></td>
</tr>
<tr>
<td>• Supervision of the marketing of investment products to the general public, as well as for the ‘social supervision’ of supplementary pensions</td>
<td></td>
</tr>
</tbody>
</table>
### 2.5. Financial Reporting

#### Trends - Findings

FSMA Study – **IAS 34** (half yearly financial report listed companies, 2009)

<table>
<thead>
<tr>
<th>Findings</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>45% comply with IAS 34 re. <em>all</em> the items</td>
<td></td>
</tr>
<tr>
<td>65% conformity shortcoming only for <em>two</em> criteria</td>
<td></td>
</tr>
<tr>
<td>56% conformity shortcoming only for a <em>single</em> criterion</td>
<td></td>
</tr>
<tr>
<td>88% include IAS compliance declaration</td>
<td></td>
</tr>
<tr>
<td>77% of IAS 34 compliant publish a statement of comprehensive income (IAS1)</td>
<td></td>
</tr>
<tr>
<td>92% include a statement by the persons responsible for compliance</td>
<td></td>
</tr>
<tr>
<td>90% publish segment results</td>
<td></td>
</tr>
<tr>
<td>65% disclose the principal risks &amp; uncertainties</td>
<td></td>
</tr>
<tr>
<td>15% have effected business combinations</td>
<td></td>
</tr>
</tbody>
</table>
2.5. Financial Reporting

Trends - Findings

FSMA Study – IAS 36 (financial year listed cies, 2010)

<table>
<thead>
<tr>
<th>86% publish info on Cash Generating Units</th>
<th>60% disclose key assumptions on cash-flow projections</th>
<th>39% opted for different discount rate for each CGU’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>FSMA recommends publication on business units expected to generate additional returns</td>
<td>84% publish growth rates for extrapolating cash flow projections</td>
<td>60% publish a sensitivity analysis of key assumptions</td>
</tr>
<tr>
<td>FSMA recommends publication on risk of impairment loss</td>
<td>46% opted for an overall discount rate for all CGUs</td>
<td>83% determine the recoverable amount of their CGUs based on the value in use</td>
</tr>
</tbody>
</table>
2.5. Financial Reporting
Trends - Findings

NBB Communication on fair value (2013)
• Study on the application of fair value by financial institutions (06/2012) under IFRS in
  • Consolidated accounts
  • Prudential reporting
• Guidance on the application of fair value (IAS 39; IFRS 13 – EU 2013)
  • Valuation model policy by management for financial instruments in market that are no longer active
  • Documentation of discrepancies between valuation for
    • Financial reporting purposes
    • Risk management purposes

NBB Circular on cooperation with auditor (2012)
• Cooperation auditor to prudential supervision (12/2012)
• Belgian law
• Belgian standard on auditing 08.10.2010
• Guidance on
  • Assessment internal control
  • Communication auditor - NBB (incl. alert function)
2.6. Financial Reporting
Interactions

Examples


• European Banking Authority: comments (23.07.2014) on the IASB Exposure Draft (Disclosure Initiative – Proposed Amendments to IAS 1)
2.7. Financial Reporting
International Cooperation

**ESMA Report (2014)** – Activities of the **IFRS Enforcers** in Europe in 2013 (includes, on an aggregated basis, the activities of the Belgian FSMA)

**ESMA final report (2014)** containing the “**Guidelines on enforcement of financial information**”


**Operating under ESMA, EECS (European Enforcers Coordination Sessions)** is a forum in which all EU National Enforcers of financial information – including the Belgian FSMA - meet to exchange views and discuss experiences of enforcement of IFRSs.
Audit & Assurance
3. Audit & Assurance
Regulatory basis

EU Directive 2006/43/EC

Belgian Law 22.07.1953 (30.04.2007)

Auditors’ Oversight System

Professional organisation
3. Audit & Assurance

Regulatory basis

7 non-EU auditors of non-EU entities listed in Belgium

- Art. 45 Directive 2006/43/EC
- Belgian Law 22.07.1953 – Royal Decree 03.09.2010
- Public Register
3. Audit & Assurance

Regulatory basis

Non-EU auditors of non-EU entities listed in Belgium

- **2008-2010**: Argentina, Australia, Bahamas, Bermudas, Brazil, Canada, Cayman Islands, Chile, China, Croatia, Guernsey, Jersey, Isle of Man, Hong Kong, India, Indonesia, Israel, Japan, Kazakhstan, Malaysia, Mauritius, Mexico, Morocco, New Zealand, Pakistan, Russia, Singapore, South Africa, South Korea, Switzerland, Taiwan, Thailand, Turkey, Ukraine, United Arab Emirates, and United States of America

- **2010-2012 (not extended)**: Hong Kong, India, Israel

- **2010-2012 (extended 2013)**: Bermuda, Cayman Islands, Egypt, Mauritius, New Zealand, Russia, Turkey

- **2013 -**: Abu Dhabi, Brazil, Dubai International Financial Centre, Guernsey, Hong Kong, India, Indonesia, Isle of Man, Israel, Jersey, Malaysia, Taiwan, Thailand, United States of America
3. Audit & Assurance
Institutional Setting

Attorney General
(public register)

ACCOM
(advisory committee on auditor’s independence)

Disciplinary Chamber

HCEP
(standards & coordination)

CIDT
(quality assurance & investigation)

Minister of Economy
(standards)

Disciplinary Court of appeal
3. Audit & Assurance

Resources

**HCEP**
- 7 members
- 2 FTE
- Support by Ministry of Economy
- € 341,000 (2012)

**CIDT**
- 3 members
- 72 (NFT) inspectors (incl. 5 external)
- Office facilities
- € 423,000 (2011)

**Attorney general**
- Belgian judicial system

**Disciplinary authorities**
- 32 (NFT) members
- Office facilities & secretariat

**ACCOM (p.m.)**
- Contributions by companies
3. Audit & Assurance Enforcement

**Quality Assurance Review**

**Frequency**
- 3 years (PIEs) – external inspectors
- 6 years (non-PIEs)

**Possible conclusions by the oversight body (CDTI)**
- Positive (with or without comments letter)
- Recommendations (with next review after 3 or 6 years)
- Recommendations (assorted with anticipated review)
- Disciplinary procedure
3. Audit & Assurance
Enforcement

Surveillance

Information
• Bankruptcy of audited entities
• Press, …

Investigation
• Initiative by the oversight authority
• Initiative by professional organization
• Complaint, …

Possible conclusions by the oversight authority
• Close the investigation
• Disciplinary procedure
3. Audit & Assurance

Enforcement

**Disciplinary procedures**

- Disciplinary Chamber (first instance)
- Disciplinary Court of Appeal
- Belgian Supreme Court

**Possible decisions**

- Official warning
- Reprimand
- Prohibition to perform specific audit engagements (limited period of time)
- Suspension from the public register (limited period of time)
- Radiation
3. Audit & Assurance
Trends - Findings

- CIDT: 255 quality assurance reviews (2011)
  - Fully compliant
  - Compliant (points of attention)
  - Compliant (recommendations)
  - Recommendations
  - Early quality review
  - No object
3. Audit & Assurance
Trends - Findings

CIDT
Main findings
Minority of cases

Internal control
More systematic appropriate confirmation by third party
3. Audit & Assurance
Trends - Findings
CIDT : surveillance (2011)
 majority of cases
Technical standards
(incl. representation letter)
3. Audit & Assurance
Interactions

- Auditors’ Oversight System
- FSMA
- NBB
- Also:
  - Basel Committee – comments IAASB – ISAs’ (2014)
  - EBA – comments IAASB – ISAs (2014)
3. Audit & Assurance

International cooperation

Institutions
- EGAOB
- IFIAR
- ...

Subject matters
- Standards
- Investigations
- Professional secrecy
- Privacy
- Labor law
- ...

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Codes of Professional Conducts
**Codes of Professional Conduct**

**Professional membership requirements**

- **Auditors (individuals)**
  - University (master) degree
  - Three years traineeship
  - Continuous Permanent Education (120 h./3 y.) – quality review

- **Audit firms - Majority Auditors EU**
  - Voting rights
  - Board of directors
Codes of Professional Conduct
Professional membership requirements

Code of conduct – statutory auditor

- Law (Company Code; Law 22.07.1953; Royal Decree 10.01.1994; Standard on independence 31.07.2007)
- Cooling-off period (two years)
- PIE audit partner rotation (six years)
- Exhaustive list of incompatible non audit services
- Cap on non audit fees for compatible services (listed cies; consolidating group) with exceptions
Codes of Professional Conduct
Institutions

IBR/IRE
- 41 FTE
- € 5.3 mio balance sheet
- € 7.8 mio turnover

IAB/IEC
- 25 FTE
- € 5.2 mio balance sheet

BIBF/IPCF
- 20 FTE
- € 3 mio balance sheet
Conclusion

Accounting & Auditing Standards
FSMA /ESMA / IOSCO
Studies IAS 34 – IAS 36
NBB / ECB (Banking Supervision)
Auditors’ Oversight System
Professional Body
EU Audit Reform
Conclusion

Disclosure of Non-Financial Information

- Processes
  - Corporate governance
  - Risk Management
  - Internal Control
- Holistic
  - Environment
  - Social
  - Human Rights
  - Anti-corruption
  - Diversity
Corporate Reporting
Monitoring of Compliance and Enforcement of International corporate reporting Standards and Codes