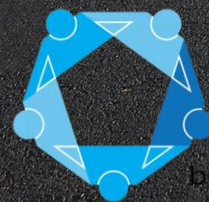


# FAIB LUNCH DEBATE |

Who needs an auditor and for what?

20 October 2022



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# Your speakers



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# Agenda

## 1 Introduction and context

Definition

Situations in which an audit is required

Situations in which an audit is required

## 2 The different types of audit

Introduction

Legal audit and contractual audit

Review

Agreed-upon procedures (AUP)

Other audit reports

## 3 Corporate legal aspects

Appointment and dismissal of a statutory auditor

Role of the NPO's bodies

Potential liabilities and how to avoid them

## 4 Q&A

# I Introduction and context

01

Definition of  
an audit?

02

Definition of  
an audit?

03

The audit of  
the annual  
accounts

# I Introduction and context

## 1 Definition

### The financial statement audit (ISA 200)

The purpose of an audit is **to enhance the degree of confidence of intended users in the financial statements.**

This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.

In the case of most general purpose frameworks, **that opinion is on whether the financial statements are presented fairly, in all material respects, or give a true and fair view in accordance with the framework.**

An audit conducted in accordance with ISAs and relevant ethical requirements enables the auditor to form that opinion. *(ISA 200, par. 3)*



As the basis for the auditor's opinion, ISAs require the auditor to obtain **reasonable assurance about whether the financial statements as a whole are free from material misstatement,** whether due to fraud or error. Reasonable assurance is a high level of assurance. It is obtained when the auditor has obtained 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. However, reasonable assurance is not an absolute level of assurance, because there are inherent limitations of an audit which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive. *(ISA 200, par. 5)*



The financial statements subject to audit are those of the entity, prepared by management of the entity with oversight from those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities. *(ISA 200, par. 4)*



# 1 Introduction and context

## 2 Situations in which an audit is required

### Mandatory

- ▶ For companies, associations and foundations meeting at least 2 of the following 3 thresholds :
  - ▶ Annual average of the **number of employees**: 50
  - ▶ Annual **revenue** (excluding VAT): 9.000.000,00 EUR
  - ▶ Total **assets**: 4.500.000,00 EUR
- ▶ NPO with a Workers' Council (FTE equal or above 100)
- ▶ NPO in a group which published consolidated financial statements

### Voluntary

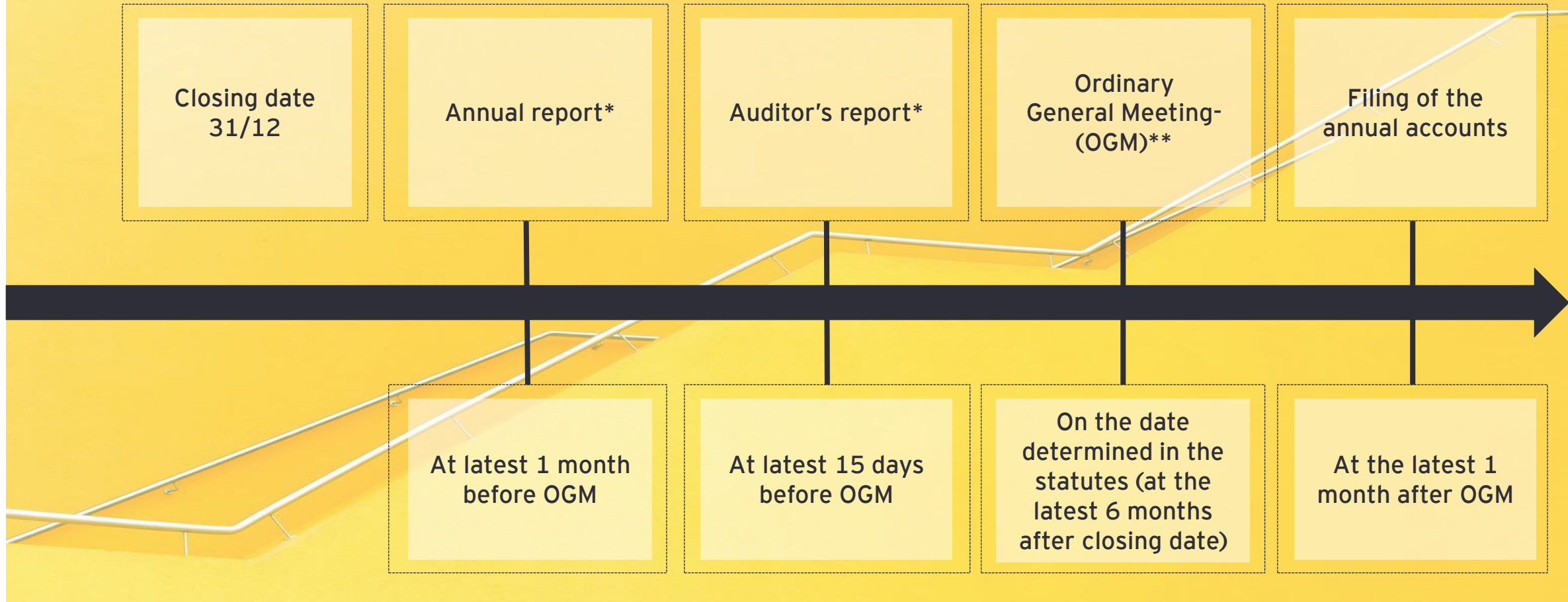
- ▶ By any Non-Profit Organisation (hereafter: "NPO")
- ▶ Advantage: enhancing credibility and financial transparency



# I Introduction and context

## 3 The audit of the annual accounts

Timeline : Key steps to bear in mind when undertaking the annual compliance process



\* Mandatory for "large" associations (article 1:28 BCAC) and foundations (article 1:30 BCAC)

\*\* N/A for foundations

# I Introduction and context

## 3 The audit of the annual accounts

### Audit methodology and approach: How the audit and service delivery are executed

1. **Planning and identification of the potential risks:** Data analytic based understanding of the processes and understanding of your risk, strategy and goals;
2. **Risk assessment and audit approach:** Identify process deficiencies and weaknesses and highlight data flows that have deviated from what was expected;
3. **Execution of the audit procedures:** Intelligent analytical background examinations and conduct inter-account correlation and linkage analyses;
4. **Conclusion:** Communicate weaknesses, suggest enhancements & provide benchmarking input.

#### → Understanding the business:

- Issue resolution Understand specific issues
- Proactive Thinking ahead together
- Communication style
- Timely and clear
- Independence and confidentiality

#### → *Jointly developed performance evaluation*

#### → *Understanding of the industry*

#### → *Clear and transparent deadlines reporting and continuous communication*



# I Introduction and context

## 3 The audit of the annual accounts

The 4 types of audit opinion:

Unqualified opinion:	Financial statements give a true and fair view of the financial position of the NPO
Qualified opinion :	Misstatements are material but not pervasive to financial statements and Inability to obtain sufficient appropriate evidence
Disclaimer :	Inability to obtain sufficient appropriate evidence (not pervasive)
Adverse opinion:	Misstatement are both material and pervasive to financial statements

→ Auditors can also add **Emphasis Matter** and **Other Matter Paragraphs**, such paragraphs do not modify the audit opinion

# I Introduction and context

## 3 The audit of the annual accounts

### Inherent limitations of an audit

- ▶ The Assurance Engagement is not intended to identify errors or fraud which are not significant to the financial statements;
- ▶ Inherent limitations in the audit process:
  - ▶ selective testing,
  - ▶ collusion or forgery;
- ▶ Assurance Engagement constitutes an obligation of means and not an obligation of result



### How to prepare for an audit?

- ▶ Agree on :
  - ▶ Scope;
  - ▶ Timing; and
  - ▶ Milestones
- ▶ Client assistance package (= closing file) - pre-collection of audit evidence
- ▶ Meeting to discuss :
  - ▶ the main change in the activity of the NPO,
  - ▶ revenue, assets and liabilities

# II The different types of audit

1

Introduction

2

Legal audit vs contractual audit

3

Review

4

Agreed-upon procedures (AUP)

5

Other audit reports

# II The different types of audit

## 1 Introduction



Auditors can deliver **several types of audit for NPO's**, taking into accounts (i) the legal aspects, (ii) the purpose of the audit and (iii) the identity of the users of the audit report:

1. Legal audit = statutory audit required by the Belgian Companies and Associations Code (hereafter: "CAC");
2. Contractual audit;
3. Review of the financial statements of NPO's; and
4. Agreed Upon Procedures (AUP).





# II The different types of audit

## 2 Legal audit vs contractual audit

	Statutory Audit:	Contractual audit:
<b>Who?</b>	Certified Auditor	Certified Auditor or Certified accountant
<b>Appointment by?</b>	Members' <u>General Assembly</u>	Members' <u>General Assembly</u> or <u>Board of Directors</u>
<b>Mandate period?</b>	<u>3</u> years	<u>1</u> year or more
<b>Engagement letter?</b>	Yes	Yes
<b>Auditing standards?</b>	<u>ISA</u> (International Standards on Auditing)	<u>ISA</u> or Standards issued by <u>IRE/IBRL</u> for the contractual audit of SME (small and medium sized entities) and Associations and Foundations
<b>Audit report content?</b>	Report on the <u>financial statements</u> and on <u>other legal matters</u> (annual report, respect of CAC and statutes, respect of the Belgian accounting law)	Report on the <u>financial statements</u> only
<b>Audit report published?</b>	Yes 	No 

# II The different types of audit

## 3 Review

Review of the financial statements of NPO's	Main Characteristics
<i>When?</i>	Voluntary decided by the Board of Directors at the <b>closing date</b> or at an <b>interim date</b> . Can be required for some <b>legal assignments</b>
<i>Objectives?</i>	Can give <b>some confidence</b> to the Members and Stakeholders of the NPO - A review is <b>not an audit</b> of financial statements - <b>Limited assurance</b>
<i>Types of procedures?</i>	Mainly <b>inquiries</b> of management, <b>analytical procedures</b>
<i>Engagement letter?</i>	Yes 
<i>Auditing standards?</i>	ISRE 2400/2410 "Engagements to Review Financial Statements"
<i>Audit report conclusion?</i>	Nothing has come to <b>attention</b> that causes the auditor to believe that the financial statements of the NPO do not <b>present fairly, in all material respects, the financial position</b> of the NPO
<i>Audit report published?</i>	No 

## II The different types of audit

### 4 Agreed Upon Procedures (AUP)

Agreed Upon Procedures (AUP)	Main Characteristics
<i>When?</i>	Generally required <b>by a Third Party</b> (internal or external of the NPO) for a special purpose to be described in the engagement letter Required by subsidising bodies (report on investment realised) or financial institutions (solvency ratios, covenants,...)
<i>Objectives?</i>	To report on <b>factual findings</b> resulting from the works performed
<i>Types of procedures?</i>	<b>To be described</b> in the engagement letter Procedures that will be performed <b>do not constitute an audit or a review</b>
<i>Engagement letter?</i>	Yes, with a description of describe the <b>nature, timing and extent</b> of the procedures to be performed ✓
<i>Auditing standards?</i>	International Standard on Related Services applicable to agreed-upon procedures engagements - <b>ISRS 4400 (Revised)</b>
<i>Audit report conclusion?</i>	<b>No conclusion.</b> The auditor will only confirm the procedures performed and the findings. The <b>Third Party</b> has to draw its own conclusions from the findings of the auditor
<i>Audit report published?</i>	No. AUP's reports are only for the Third Party ✗

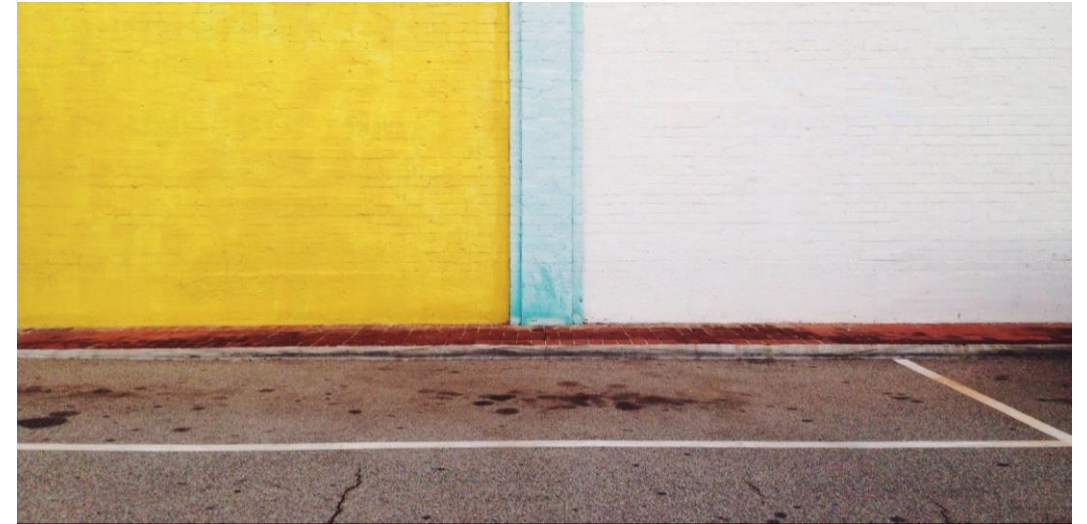
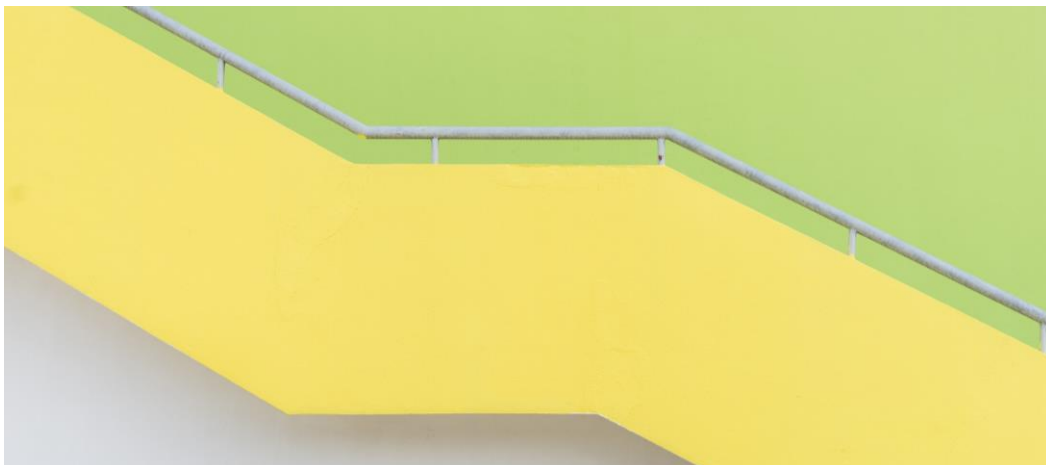
# II The different types of audit

## 5 Other audit reports

### NPO's with Worker's Council (> 100 FTE's)

According to the Law (CAC), the (statutory) auditor has to:

- ▶ Report on the **financial statements** and the board of directors' **annual report**
- ▶ **Certify the exhaustivity and the fairness** of the economical and financial information communicated annually by the management to the Worker's council
- ▶ **Explain and analyse** the information



### Legal assignments specific to NPO's

- ▶ Change of the legal form of the NPO (from NPA to INPA and vice versa) - Review of a statement of assets and liabilities - Equity not overstated
- ▶ Merger of NPO's - Audit of a statement of assets and liabilities
- ▶ Dissolution of NPO's - Audit of a statement of assets and liabilities - only by the statutory auditor



# 3. Corporate legal aspects

1

Appointment and dismissal of a statutory auditor

2

Role of the NPO's bodies

3

Potential liabilities and how to avoid them

4

The added value of an auditor

# III Corporate legal aspects

## 1 Appointment and dismissal of a statutory auditor

### Why?

- ▶ Many NPO do not know:
- ▶ When required by law (mandatory) = statutory auditor
- ▶ When voluntarily appointed and the audit report is published = statutory auditor
- ▶ When voluntarily appointed and the audit report is not published = contractual auditor
- ▶ Rules and formalities ≠ if statutory auditor appointed or not

### Who?

- ▶ Statutory auditor (commissaris / commissaire):
- ▶ Legal entity or physical person
- ▶ Amongst the members of the Belgian Institute for Company Auditors (IBR/IRE)
- ▶ Contractual clauses limiting the choice of the General Assembly to one or more specifically listed auditors are null and void
- ▶ Specific independence rules
- ▶ Contractual auditor (bedrijfsrevisor / réviseur d'entreprises):
- ▶ Legal entity or physical person
- ▶ Contractual freedom
- ▶ Amongst the members of the Belgian Institute for Company Auditors (IBR/IRE)

## III Corporate legal aspects

### 1 Appointment and dismissal of a statutory auditor

#### Appointment

- ▶ Appointment procedure for a statutory auditor:
- ▶ General Assembly
- ▶ Upon proposal of the Board of Directors and - if applicable - the Works Council
- ▶ Fixed term of 3 years (not flexible!)
- ▶ Fixed annual remuneration
- ▶ Publication formalities in the Annexes to the Belgian Official Journal
- ▶ Appointment procedure for a contractual auditor:
- ▶ Competent body: verify in statutes
- ▶ Term of 1 year or more (flexible)
- ▶ Contractually agreed upon remuneration
- ▶ No publication formalities

### III Corporate legal aspects

#### 1 Appointment and dismissal of a statutory auditor

Powers of the statutory auditor within the context of the audit of the financial situation and the examination of the regularity of the annual accounts:

- ▶ Right of access to all documents
- ▶ Requesting additional information to the managing body or the staff, including information about:
  - ▶ Other group or connected entities
  - ▶ Debts, claims, audit request letter to lawyers, etc.
- ▶ Letting other persons assist in the performance of their tasks
- ▶ Convening the General assembly (on the basis of report or alarm bell procedure)

# III Corporate legal aspects

## 1 Appointment and dismissal of a statutory auditor

1

### Resignation

- ▶ Resignation procedure for a statutory auditor:
  - ▶ Only during a General Assembly + obligation to motivate the reasons in writing to the General Assembly
  - ▶ Only in case of important personal motives
  - ▶ Mandatory notification to the Belgian Audit Oversight Board (CTR/CSR)
  - ▶ Publication formalities in the Annexes to the Belgian Official Journal
- ▶ Resignation procedure for a contractual auditor:
  - ▶ Contractual freedom
  - ▶ No publication formalities

2

### Dismissal

- ▶ Dismissal procedure for a statutory auditor:
  - ▶ General Assembly
  - ▶ Only if a legitimate reason (difference of opinion on accounting issues or control procedure ≠ legitimate reason)
  - ▶ Dismissal to be included on the agenda + notified to the statutory auditor + possibility for the statutory auditor to communicate observations in this respect
  - ▶ Mandatory notification to the Belgian Audit Oversight Board (CTR/CSR)
  - ▶ Publication formalities in the Annexes to the Belgian Official Journal
- ▶ Dismissal procedure for a contractual auditor:
  - ▶ Competent body according to the statutes
  - ▶ Contractual freedom
  - ▶ No publication formalities

# III Corporate legal aspects

## 2 Role of the NPO's bodies

1

### Treasurer

- Keeps track of the NPO's finances and accounting
- Works closely together with the (statutory) auditor, the Board of Directors and the General Assembly on the approval of the annual accounts

2

### Other specific committees

- E.g., consultative committees, financial committees, etc.
- On a case-by-case basis

3

### Secretary General / Managing Director

- Works closely together with the (statutory) auditor, the Board of Directors and the General Assembly on the approval of the annual accounts

# III Corporate legal aspects

## 2 Role of the NPO's bodies

5

### Board of Directors

- Takes the initiative on organising an audit
- In case of a statutory auditor: Makes a proposal of appointment to the General Assembly
- In case of a contractual auditor: Appoints or makes a proposal of appointment of the auditor to the General Assembly (depending on the statutes)a
- Communication and coordination of the audit with the (statutory) auditor

6

### General Assembly

- In case of a statutory auditor: Appoints and dismisses the statutory auditor, determines the remuneration, grants the discharge
- In case of a contractual auditor: Appoints the auditor (if provided so by the statutes)
- A statutory auditor shall in principle attend the General Assembly when it has to deliberate on the basis of an audit report

# III Corporate legal aspects

## 3 Potential liabilities and how to avoid them

### Potential liabilities

- ▶ Potential liability of the managing body for:
  - ▶ Management faults (mismanagement)
  - ▶ Breaches of law or of the statutes
  - ▶ (Extra-contractual) Liability for infringements of criminal law or special laws
- ▶ Joint and several liability
- ▶ Both towards the entity as towards third parties

### Sanctions for late/non-filing of the annual accounts

- ▶ Directors' liability (see above) Inadmissibility of legal actions, judicial dissolution & no authorisation for donations

### Credibility & reputation

- ▶ *Image and reputation are just as important as finances and associations.*
- ▶ Be advised by a professional
- ▶ Good Governance ⚠



### ▶ What is the added value of an auditor?

**Analytical and perspective skills** enabling a better consideration of the accounting and financial interests

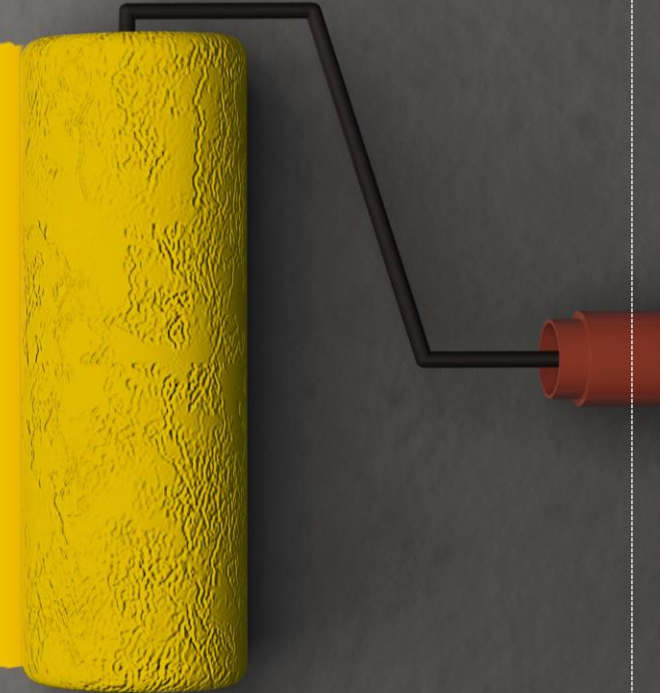
**Independent** discussion partner for management and finance responsible(s)

**Long-term** investment

**Objective** explanations by an independent expert who is familiar with the actual situation of the entity

Significant boost towards **stronger internal control and governance**

Assessment and gradual approach of the **risks** to which the entity is exposed





IV

# Q&A

You have questions  
**We have answers**

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## EY Law

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