



## Insights

Thursday, 14 December 2023

### Dialogue with the sector: enriching and to be repeated

The Belgian Audit Oversight Board (hereafter “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.

The BAOB would like to extend its warmest thanks to all participating auditors for the time they invested and for their openness.

The dialogue process has enabled the BAOB to refine its insights into the challenges faced by the sector, how audit firms intend to improve audit quality by applying the new International Standards on Quality Management (ISQM) and to maintain vigilance as regards integrity risks such as the risks of fraud and money laundering<sup>1</sup>. Such dialogues thus contribute to the BAOB’s proportionate and risk-based oversight.

The BAOB asked for and received input on its supervisory approach, and will include the suggestions received in its reflection on the action plan for 2024.

All participants, along with the BAOB, found the dialogue important and enriching, and wish to repeat this initiative in 2024.

We wish the entire sector very happy holidays and a successful and prosperous new year.

Without claiming to be exhaustive, the following points are a selection of the most important matters discussed.

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<sup>1</sup> Money Laundering (ML): the laundering of money within the meaning 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.

## 1. Attractiveness of the profession

The dialogue indicated great concern for the attractiveness of the profession. A decrease in the flow of young people wishing to become company auditors, and an accelerated outflow of experienced professionals means that there is a risk that there will be a shortage of active auditors and qualified staff. This may result in structural problems, as a result of which auditors may have to turn down some clients. Certainly, a decline in audit quality cannot be allowed to happen.

Finding and retaining talent is a challenge not only in the audit sector but also in other areas at both European and international level. Solutions have been proposed such as outsourcing in Belgium and abroad, providing a greater variety of tasks, revisiting the structure of audit firms, etc.

To keep the profession attractive, many participants consider that the conditions for starting a traineeship, the trainee period itself, and the final exams that give access to the profession need to be reviewed and simplified.

Some audit firms also suggested they would like to admit candidates with bachelors' degrees in economics to traineeships, and consider that to be a more valuable background than some non-financial or non-economic Master's degrees.

An underlying problem over the past several years is the impression that society and even clients themselves do not have sufficient understanding of what the audit profession involves. And this despite the fact that the auditors play a major social role and are essential to fostering public trust in the reliability of information disclosed by companies.

## 2. Fees, regulatory framework and de-risking

Participants in the dialogue had mixed opinions about fees. Some of them noted that fees had increased in the past 3 years and that auditors apply a risk-based fee structure that depends on the risk involved or the time investment that they estimate is required per client. They 'choose their clients' and even refuse some more risky or time-consuming clients. The riskier clients then end up with other auditors, which in turn increases the risk that those auditors do not have enough time or expertise available to serve these clients. The BAOB is therefore keeping a close eye on the effects of 'de-risking'.

Other participants found that the fees were still too low to cover the cost of all the audit tasks. They also find it difficult to pass on to their clients the costs of the time investment and the new software needed to meet the requirements of new legislation and standards, such as AML and ISQM.

Many auditors found that including fees in the annual financial statements has exerted downward pressure on fees; they consider that including the actual hours of work performed would be far more valuable information. Auditors were unanimously critical of the 'dumping prices' that some in the sector apply in their tenders, which make it impossible reasonably to perform all the required audit tasks. Many audit firms admit they refuse to take part in public procurement procedures because they find that they are based entirely on the price and not on audit quality.

The BAOB is vigilant as regards the charging of very low fees, which raises significant risks, and in the

Auditors' Annual Cartography for 2023 it has refined its questions by including information about fees in tenders.

### 3. Implementation of ISQM

The implementation of the new international standards for quality management (ISQM) has yielded mixed results. On the one hand, according to the sector, they generate a high implementation cost in the form of time and IT tools. They require documentation of what auditors often already know about their clients and the auditors' organization. On the other hand, these standards do lead to better and stronger follow-up, over time, of their own organizational structure<sup>2</sup>.

### 4. Vigilance over integrity risks

The dialogue with the sector shows great vigilance over integrity risks such as the risks of fraud and of money laundering. Despite the associated costs, anti-money laundering vigilance has led to a strengthening of the internal work programmes and the verification of the identity of clients, and to keeping a closer eye on suspicious transactions. Because auditors come into contact with all economic sectors, they need more information about suspicious transactions in all those sectors. The BAOB has already played a role in this regard with its AML Recommendation 2023/03<sup>3</sup>.

The sector is aware of the damage that can result from an audit of insufficient quality, and of the potential negative effects thereof for the wider public interest. Moreover, this concern prompts some audit firms to turn down clients with a high AML risk. This is unnecessary and socially undesirable: the sector has only to demonstrate the appropriate level of vigilance required and the additional time that this demands. Audit firms also wonder whether other quantitative analysis professions devote adequate attention to AML.

### 5. Sustainability reporting (CSRD<sup>4</sup>)

Rarely has a regulatory development generated as much enthusiasm as the upcoming sustainability reporting. This topic has aroused great interest at audit firms among both young and old auditors, and is perceived as an important positive factor in the attractiveness of the profession to young people.

The sector is asking many audit-related technical questions, and the fog around these is expected to lift only gradually. Clients are not yet sufficiently engaged in preparing their sustainability report: an important pedagogical approach is therefore fully underway. This new audit activity requires a great deal of investment in the form of training and various types of cooperation with new specialists.

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<sup>2</sup> The BAOB has therefore updated the audit guidelines as regards the organization structure of audit firms for its 2023 quality controls, in order to give auditors more time to prepare for the entry into force of the ISQM standards. The BAOB has opted deliberately for a pedagogical approach to oversight of compliance with these new standards.

<sup>3</sup> AML Recommendation 2023/03 of 9 November 2023, available on: [https://www.fsma.be/sites/default/files/media/files/2023-11/ctr\\_csr\\_aml\\_recommendation\\_202311\\_en.pdf](https://www.fsma.be/sites/default/files/media/files/2023-11/ctr_csr_aml_recommendation_202311_en.pdf).

<sup>4</sup> Corporate Sustainability Reporting Directive (CSRD).