

Secretariat of the Basel Committee  
on Banking Supervision  
Bank for International Settlements  
CH-4002 Basel  
Switzerland

Brussels, 18 June 2013

Dear Sirs

**Subject: Comments of the Belgian Institute of Auditors Accredited for Financial Institutions on the Consultative Document of the Basel Committee “External audits of banks”**

The Board of the Belgian Institute of Auditors Accredited for Financial Institutions<sup>1</sup> (Institute of Accredited Auditors) has read with great interest the Consultative document published by the Basel Committee on Banking Supervision in March 2013 “External audits of banks”.

In this letter we briefly comment on the salient features of the Belgian collaboration framework regarding banking supervision and our views on the consultation document.

### **1. Salient features of the Belgian collaboration model regarding banking supervision**

The collaboration model in Belgium is rather unique and exists for more than 75 years. The collaboration model has certainly proven its merits and has been recently scrutinized by the International Monetary Fund as part of its assessment of the Belgian financial system stability. The report of the IMF does not contain any specific comments on the collaboration model as such.

The salient features of the Belgian collaboration model can be summarized as follows:

- Auditors of financial institutions have to be accredited in Belgium. In order to obtain the accreditation auditors have to demonstrate that they have specialized knowledge and competence in auditing financial institutions. The accreditation is limited in time and can be withdrawn by the supervisory authorities. Audit firms can also be accredited. Audit firms have, amongst others, to demonstrate that the firm has proficient knowledge and understanding of, and practical experience with the activities of banks and bank audits;

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<sup>1</sup> The Institute of Auditors Accredited for Financial Institutions is a professional organization with legal personality. The mission of the Institute is to support those engaged, amongst others, in the audit of financial institutions through collaboration, education and the development of supporting tools. The membership of the Institute is not mandatory. All members of the Institute are members of the Belgian Institute of Registered Auditors.

- The auditors of institutions subject to prudential supervision<sup>2</sup> are required by law collaborate to the prudential supervision. The scope of the collaboration, role, responsibilities and reporting requirements of the auditors are defined by law and further elaborated in detailed instructions that are regularly updated;
- The independence of the auditor is monitored by the audit committee. The performance of non-audit services is subject to strict rules and requires, depending on the circumstances, the preapproval of the audit committee. Independence is supervised by the Institute of Registered Auditors and the Public Oversight Board;
- The legislation clearly distinguishes the role and responsibilities of the management and the board of the institutions from the role of the auditor;
- The collaboration to the prudential supervision is to a very large extent harmonized for all types of institutions subject to prudential supervision;
- The auditors do have a duty to report matters of interest to the management, the board and the supervisory authorities. The supervisory authorities' instructions contain an extensive list of matters that should be considered for communication. Auditors cannot be held liable for any matters reported in good faith;
- The instructions of the supervisory authorities require, for certain areas subject to audit or review, the performance of specific procedures as well as the issuance of specific assurance on matters considered important;
- The collaboration comprises, in addition to the provision of assurance on the prudential returns, an assessment of the internal controls. The scope of this assessment extends beyond the internal controls over financial reporting. The report of the IMF referred to above suggests expanding the role of the auditor in the internal control assessment area;
- The management, under the supervision of the board, has to perform annually an assessment of the adequacy of the internal controls. The outcome of the assessment has to be reported to the supervisory authorities and the auditors. The auditors have to perform a critical assessment of the methodology used, the scope of the assessment and the appropriateness of the conclusions reached. The auditor has to report his findings in this respect to the management, the board and the supervisory authorities;
- The supervisory authorities can, by law, request the auditor to perform any kind of investigation it may deem necessary;
- A specific professional audit standard exists that specifically deals with the collaboration of the auditors to the prudential supervision;
- The supervisory authorities can veto the appointment of a banking auditor;
- The level of audit fees has to be reported to the supervisory authorities;
- The auditors have to inform the supervisory authorities of the qualifications of the audit team members prior to the start of the audit. The communication of this information allows the supervisory authorities to review whether the competency requirements are met;
- The audit firms have to report the name of the person in-charge of the quality control review in case the supervisory authorities would like to discuss any quality issues;
- The profession has the obligation to report any quality issues that might result in a disciplinary sanction;
- The auditors do very regularly meet with the supervisory authorities. The frequency of these meetings is dependent of the importance of the institution;

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<sup>2</sup> The institutions subject to prudential supervision comprise amongst others, in addition to the banks, financial services groups, insurance and reinsurance companies, stockbroking firms, settlement and clearing institutions, payment and electronic money institutions, undertakings for collective investment and management companies of undertaking for collective investment.



- The audit profession does regularly meet with the supervisory authorities to discuss matters of common interest including the collaboration to the prudential supervision. It is customary to have quarterly meetings for systemic financial institutions;
- The audit profession provides specific support to auditors of financial institutions by means of professional practice communications. These communications cover a wide range of issues including points that require special attention during the performance of the year-end audits;
- Special attention is given, within the context of the quality control reviews performed by the audit oversight body, to the collaboration to the prudential supervision.

The collaboration model is regularly reviewed and corrective actions are taken if and when considered necessary.

## **2. Views of the institute of accredited auditors on the consultation document**

The Institute of Accredited Auditors is very supportive of the principles contained in the document. A substantial number of the principles have already been put in place in Belgium.

The document does, in addition, contain some guidance that can indeed contribute to the further improvement of the audit quality of banks. The Institute of Accredited Auditors would in this respect like to reflect with the supervisory authorities and the financial sector on the following matters:

### **2.1. Quality control review**

The audit of a bank in Belgium should be subject to an engagement quality control review prior to the issuance of the audit opinion. This quality control review does not, contrary to the requirements of the consultation document, have to be performed internally by the audit firm.

The Institute of Accredited Auditors is of the opinion that the requirement to have the quality control review performed internally by the audit firm makes it more difficult for small and medium size audit firms to comply with the standards.

### **2.2. Internal audit**

The document underlines the importance of the internal audit department as an important element of the overall internal control environment<sup>3</sup>.

In view of the importance of the internal audit department, the Institute of Accredited Auditors suggests adding the requirement that the internal audit department should adhere to the IIA's International Professional Practices Framework.

### **2.3. Risk management and compliance**

The document should, in addition to the internal audit department, also focus on the importance of the risk management and compliance function as an important element of the overall internal control environment.

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<sup>3</sup> Consultation document, paragraph 70.

#### **2.4. Expectations with regard to a bank's audit committee**

The Institute of Accredited Auditors shares the view of the Basel Committee that the audit committee has a crucial role in overseeing, amongst others, the quality of the audit process. Regular and effective engagement and communication between the auditor and the audit committee does indeed contribute to the quality of the audit process.

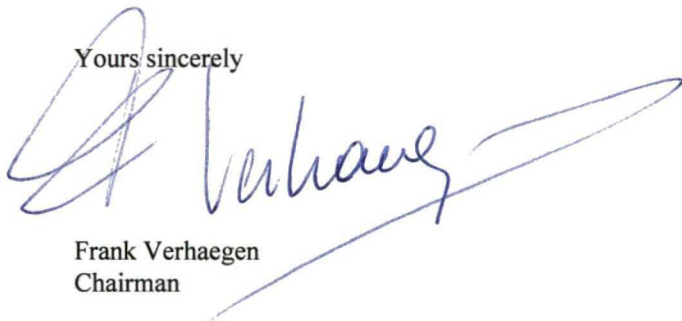
### **3. Other comments on the consultation document**

#### **Performance of the audit in accordance with internationally accepted auditing standards**

The document requires the audits to be performed in accordance with internationally accepted auditing standards.

The performance of an audit in accordance with internationally accepted standards does in view of the profession require tailoring the audit work in response to the significant risks and issues. The requirement referred to in the document to tailor the audit work in response to the significant risks and issues should therefore not be seen as an additional requirement as suggested by the consultation document<sup>4</sup>.

Yours sincerely



Frank Verhaegen  
Chairman

cc.: Mr. Luc Coene, Governor of the National Bank of Belgium  
Mr. Jean-Paul Servais, Chairman of the Financial Services and Markets Authority  
Mr. Daniel Kroes, Chairman of the Institute of Registered Auditors

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<sup>4</sup> Paragraph 26 of the consultation document (page 7) states that as the international auditing standards are not industry-specific supervisors expect the external auditors not only to comply with internationally accepted auditing standards but also to tailor the audit work in response to the significant risks and issues applicable to banks.