



IBR-IRE

Instituut van de Bedrijfsrevisoren
Institut des Réviseurs d'Entreprises

www.ibr-ire.be



**International Conference
Prospects for development of
Accounting, Auditing and Analysis in the
context of Euro integration**

May, 19-20 2011

**Odessa
Ukraine**

IBR-IRE



IBR-IRE

www.ibr-ire.be

The role of audit in business reporting:

The Belgium experience

Paul Van Geyt

19.04.2011



The legal role of the Belgian statutory auditor

- Professional judgment
 - Fairness of annual accounts
 - Intermediate financial states
 - Valuation of economic or financial information
 - Examination and explication of economic and financial information to workers councils
- Professional scepticism = central principle
- Independence of the professional = high quality of audit work and reporting



Legal basis: independence

- General principle of independence
- Limitative list of legally forbidden actions
 - Do not intervene in company decisions,
 - Do not hold the books or establish the annual accounts,
 - Do not act or intervene in the establishing of financial information systems,
 - Do not evaluate items of the annual accounts,
 - Do not participate on the internal audit function,



Legal Basis: independence

- Do not represent the company in tax or other litigations,
- Do not intervene in the selection of people for management and staff.

If auditor is in one of these situations: he legally can not declare himself as independent!



Overall importance of audit quality:

- For investors: are the Financial data correct?
Can I rely on the information of the company?
- For other stakeholders: same question on continuity of the company.



Question: has the audit function any effect on the way companies do their job properly?

Answer: an academic study on the effects of external auditing in private held companies: an empirical evidence from Belgium



The objective of the study:

- Investigate the effects of financial statement auditing on financial reporting.
- Examine the impact of audit intensity on financial reporting.



Effects of external financial statement

auditing: current debate on deregulation in Europe.

Four sets of hypotheses:

- The degree of earnings management through abnormal accruals: lower in audited companies?
- The quality of tax adjustment disclosures in the income statement and notes: higher?



- The effect of auditing and client performance: better when audited?
- The effect of auditing on the cost of financial debt: lower when audited?

2 samples of data:

- sample A: small companies : 1.341
- sample B: companies in all sizes : 6.890



Results:

- Earnings management regression:

strong evidence that presence of auditor and audit intensity works as constraint on earnings management in all firms



Results:

- Tax regularization disclosure:

Very strong support for a positive association of tax regularization disclosure quality and auditing



Results:

- Overall financial performance:

Very strong positive significant association
between auditor and survival score:

but only in very small firms + limited financial
information disclosure



Results:

- The cost of financial debt:

No association between the incidence of audit
and the cost of debt



General conclusions of the study:

- Auditing makes a difference!
- Earnings management lower!
- Disclosure quality higher!
- Overall financial performance is higher in very small companies!



Another study recently on the role of the auditor in governments and non-profit organizations (published early May 2011)

Goal: practical test introduction external financial auditing in associations in non-profit sector! Many small ones! (1.000)



Research questions:

- Factors affecting choice of a specific auditor
- The practical execution of the audit
- The final evaluation of the auditor



Reasons for auditor selection:

- The law
- Voluntary basis : 18%
- Criteria of choice:
 - ❖ Technical competences
 - ❖ Integrity of the auditor
 - ❖ The quality of work
 - ❖ The price (cost)



Perceptions conduct of audit and activities

- Confirmation letter: interpretation not well
- Activities and report:
 - ❖ Positive impact on quality of information
 - ❖ No usefulness on attracting funding
 - ❖ Complementary, not overlapping: $\frac{3}{4}$
 - ❖ Satisfaction on performance of auditor
 - ❖ Meets expectations in most of cases



Auditor changes

Small number changes after mandate (9%)

Reasons:

- Dissatisfaction to client attention
- Industry expertise
- Practical execution
- Technical output
- Audit



Recommendations

- ✓ Growing number 2006-2008
- ✓ High degree of satisfaction on conduct of audit process
- ✓ Only 5% do not fulfil the legal obligation
- ✓ Expectations of stakeholders and capacities and capabilities of auditors underestimated
- ✓ French proverb “plus est en vous”



Thank you for your attention!