

# Annual Report 2011

As in the past years, this annual report outlines the resources that were allocated in 2011 by the Belgian Court of Audit to implement its missions. The information it contains must enable the reader to form his/her own opinion about the Court's functioning and its results. The annual report also includes a chapter devoted to the certification of annual financial statements.

The full annual report is available in French and Dutch.

## Quantified data

In 2011 the Court employed 559 staff members on average. About two thirds of staff members occupy the function of auditor or assistant auditor; the remaining staff members perform a support function. The Court's total expenditure amounted in 2011 to 50,4 million euros, 82,5 % of which was allocated to personnel costs.

The report also presents an overview of the audit results. In 2011 the Court issued 42 financial reports, 26 special reports, 53 articles in its Annual Report of comments and 6 opinions with regard to the budget repercussions of proposed acts, decrees or ordinances to the parliamentary assemblies and the provincial councils.

The Court carried out 6 audits in 2011 at the request of parliamentary assemblies. 14 members of Parliament made use of their individual right of access to documents and information.

In 2011 the Court of Audit answered 9 requests for advice from the executive authorities.

## Impact of the audits

In its annual activity report the Court also pays attention to the impact of its audits. It examines the way its publications are perceived and monitors the implementation of its recommendations. This allows the Court to value its activities within its own institution and also increases the quality of the information provided to parliaments and at the same time improves its possibilities of action.

It can be mentioned in this respect that the Court's representatives attended in 2011 76 sittings of the different parliaments to answer questions on budget review, its Reports of comments and special reports.

In order to measure the impact of its audits, the annual report focuses on the extent to which its recommendations were implemented in 10 of its audits.

## International relations

Jointly with the European Court of Auditors (ECA), the Belgian Court of Audit takes part in audits of the European Union expenditure, participates in the activities of the various organizations of Supreme Audit Institutions (SAIs) and welcomes foreign delegations.

### **European Court of Auditors**

In 2011 the ECA, in conjunction with the Belgian Court of Audit, carried out two audits in Belgium. There is also a consultation structure available for the SAIs of the member states of the European Union which provides them the opportunity to discuss topics of common interest together with the ECA. Within this framework a meeting of the Contact Committee of the Presidents of the SAIs took place in Luxembourg in 2011 as well as one meeting of the liaison officers of the SAIs of the European Union.

The Court is also a member of the network dealing with the reporting of national SAIs on the financial management of European Union funds, of the working group dealing with VAT, of the information network on the Common Agricultural Policy, of the information network on the Lisbon strategy – Europe 2020 and of the information network on the budget policy.

The Belgian Court of Audit and the SAI of Slovenia co-chaired the *Public Procurement Updating Group* until 13 October 2011. The final report on the activities of the Updating Group was presented to the Contact Committee of the Presidents and it was decided to dissolve this working group.

### **Organizations of Supreme Audit Institutions - Intosai**

As a member and previous chair of the internal control standards subcommittee of the International Organization of Supreme Audit Institutions (*Intosai*), the Belgian Court of Audit worked in close collaboration with the new Polish chair. Moreover, during 2011, it contributed, as member of the Intosai working groups, to the work in respect of SAIs accountability and transparency as well as programme evaluation.

It contributed to several other Intosai initiatives, and in particular to the preparation of a resolution of the United Nations' General Assembly on promoting the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme audit institutions (resolution adopted on 22 December 2011). A delegation from the Court of Audit also took part in the two-yearly UN/Intosai-symposium, which focused on effective practices of cooperation between SAIs and citizens to enhance public accountability.

### **Eurosai**

During the VIII Eurosai congress (*European Organization of Supreme Audit Institutions*) (Lisbon, May-June 2011), the Belgian Court of Audit was elected as a member of the Governing Board of Eurosai for the period 2011-2017. It took part in the third Eurosai/Arabosai conference and the first Eurosai/Asosai conference. Within the framework of Eurosai's strategic plan the Court became a member of the new Goal Teams 2 *Professional Standards* and 3 *Knowledge Sharing* of Eurosai, chaired respectively by the SAIs of Germany and the Czech Republic, and took part in the first meetings of these Goal Teams.

The Court took part as member in the regular activities of the Eurosai information technology (IT) working group, the environmental auditing working group (including a seminar on auditing waste management) and the task force on the audit of funds allocated to disasters and catastrophes. Within the framework of the IT working group, a

representative of the Court collaborated as moderator to the *IT self-assessment* by the SAI of Senegal.

The Court also sent delegates to Eurosaï seminars on the audit of public-private partnerships and on SAIs' communication.

### **AISCCUF**

Since 1994 the Court has been treasurer of the Association of Supreme Audit Institutions that have in common the use of the French language (*Association des institutions supérieures de contrôle des finances publiques ayant en commun l'usage du français* – AISCCUF).

In 2011 the Senior President participated in the statutory general meeting and to the bureau meeting. He also took part in the conference of the heads of SAIs dedicated to the topic *The accountability of the authorizing officers*.

External auditor of international organizations

A councillor of the Belgian Court of Audit chairs the OCCAr board of external auditors (*Organisation conjointe de coopération en matière d'armement*) and is also an external auditor of the ECMWF (*European Centre for Medium-Range Weather Forecasts*).

### **Foreign delegations**

In 2011 the Court hosted 65 members of eleven foreign delegations as part of a visit or an information training with regard to the Court's missions, organization and audit methods.

At the request of the Bulgarian SAI's president, the Court of Audit provided a two-day training session on performance audit in Sofia in November 2011. It also supported the organization of an internal examination by drawing up questions related to the training.

### **External representation**

In 2011 the Belgian Court of Audit took part in various external representation activities.

It attended a meeting organized by the German Bundesrechnungshof about the SAIs' audit of the European Stability Mechanism.

At the federal State level it assigned three auditors to the parliamentary committee in charge of examining the circumstances leading to the dismantlement of the financial group Dexia.

Also in 2011 the Belgian Court of Audit, the Internal Audit Agency of the Flemish Administration (IAVA) and the Institute of Registered Auditors (IBR-IRE) concluded a joint memorandum of agreement in respect of financial audit in Flanders. Through this memorandum of agreement they confirm their efforts to maximize the coordination and complementarity of their audit activities, with each body retaining its autonomy, regulations and responsibilities.

The Court of Audit informed the Flemish Parliament in 2011 about the process leading to the choice of its audit themes. It also organized a meeting with the secretaries of the Flemish Parliament's committees. There was moreover the yearly consultation between the presidents of the Flemish Parliament and the Court, and another consultation about budgetary matters.

A representative of the Court of Audit was appointed as member of the audit committee of the Walloon public service (*Service public de Wallonie*).

## Certifying the annual financial statements

### Introduction

The Court published an article on the certification of annual accounts starting from the observation that the nature and purpose of auditing the financial statements in the public sector are changing under the impulse of an international reform movement aiming at more uniformed, standardized and transparent financial reporting about public finance and management of the inherent risks. As a result, international accounting and auditing standards have been set up, which are playing an increasing part in determining SAIs' working methods. Moreover, the current European context increases pressure to perpetuate this evolution. Applying those international audit standards presupposes that the financial statements give a true and fair view of the real situation and that they be certified by an independent body, which implies that their quality must be assessed.

The article aims at clarifying what is meant by certification under the international and the Belgian legislation. It also gives an overview of the circumstances in which the Court of Audit has already certified financial statements and how it proceeds to this end, and describes the conditions that must be fulfilled to ensure that the Court can extend the certification process in the future to other financial statements submitted to its control.

### The international normative framework

The article includes a review of the international normative framework. The pre-eminent standards are the Issai Standards<sup>1</sup> set by the International Organization of Supreme Audit Institutions (*Intosai*), SAIs being under the obligation to use best endeavours to comply with them. The ISSAI 400<sup>2</sup> relates specifically to reporting standards, among which the standard on *audit opinion* or auditor's report.

Intosai's audit standards go back to the *International Standards of Auditing* (ISAs) of the *International Federation of Accountants* (IFAC), a normative reference framework that was originally drawn up for the private sector.

The guiding standard is ISA 200, which determines the overall objectives of the independent auditor when conducting an audit of financial statements. This ISA stipulates that the auditor's work must contribute to enhancing the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the

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<sup>1</sup> International Standards of Supreme Audit Institutions.

<sup>2</sup> Reporting Standards in Government Auditing.

auditor based on reasonable assurance about whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework and therefore give a true and fair view of the real situation.

This audit standard must be read together with ISA 700, which describes the form and content of the auditor's report issued as a result of an audit performed by an independent auditor of an entity's financial statements, and which aims to further consistency in the auditor's report. If the audit was carried out according to internationally recognized standards, it will be easily identified and the report's reliability will be enhanced. A detailed reading of this audit standard shows that the auditor's report should be a written expression of opinion by an independent auditor. The auditor, who must perform his audit in accordance with international audit standards and ethical standards, should plan and carry out his audit so as to obtain reasonable assurance about whether the financial statements are free from material misstatement. The ISA 705 and ISA 706 further deal with the situation in which an auditor issues a modified opinion. The report can express a qualified opinion with or without an Emphasis of Matter paragraph, an adverse opinion or a disclaimer of opinion.

With reference to international audit standards, certification can thus be described as the opinion expressed by an independent body about financial statements prepared in a synthetic and standardized form, which is achieved by using clear standards and performing a professional and independent audit; it provides a reasonable or sufficient assurance about the quality of the information presented by the auditee about the compliance with the applicable rules and the true and fair view.

The article also provides examples of SAIs which apply the certification technique of public accounts, such as the Government Accountability Office of the United States of America, the Office of the Auditor General of Canada, the Office of the Auditor General of New Zealand, the Cour des comptes of France, the National Audit Office (NAO) in Great Britain and the Algemene Rekenkamer in the Netherlands.

### **First experience of certification by the Belgian Court of Audit**

In Belgium the certification technique of public accounts is a fairly new theme. Some federated entities have enshrined the certification of their general account in their ordinances and decrees: the Brussels Capital Region, the German-speaking Community, the Walloon Region and the French Community. The regulations of the federal State, the Flemish Community and the provinces do not provide with certification of their accounts by the Court of Audit.

It is already apparent that the certifications have given the Court's audit conclusions more assurance and precision. There are also some disadvantages, such as the long handling times and extended resources required for such a certification audit, in particular when the accounting systems and internal processes of the audited entities are insufficiently developed.

### **Nature and advantages of certification**

Certification is closely related to the finality of financial audit, which according to international audit standards is to express an opinion about whether the general account gives a true and fair view.

Certifying an account adds a supplementary requirement of accuracy, as the certifying body's findings will be used to conclude with reasonable or sufficient assurance that the account gives a true and fair view. This opinion must be of such a nature that another independent audit body would reach the same conclusion under the same circumstances.

Certification does not provide absolute assurance and is non-binding; it does not infer that the administrative entity or the government are under the obligation of complying with the certifying body's opinion. Neither does it imply that the administrative entity would be granted full discharge as the expressed opinion only provides reasonable assurance about the regularity, the truthfulness and the reliability of the account.

The independent external auditor's opinion is important for all the parties concerned. It gives the administrative entity additional assurance that its accounts books are transparent, that the internal control of the accounts and the reporting comply with the existing regulations and best practices, and that the financial reporting is free from material misstatement. As far as parliaments are concerned, certification is used to prepare the final adoption of the budget and the approval of the various entities' accounts. It must also ensure that the transactions of the different entities that are to be consolidated in the national accounts, taken together, provide a true and fair view of the country's financial and accounting situation, which is foremost in a European and international context.

It is therefore crucial that the opinion be intelligible (the message must be clear and directly comprehensible), and that the findings be ordered in a hierarchy and formulated according to their materiality. All recipients must be certain they are reading a qualified opinion by an independent expert with meaningful comments that have an impact on the financial statements.

### **The Belgian Court of Audit and certification**

Already from the beginning of the previous decade the Court of Audit has adapted its internal organization and methods to the modernization of public administration and to the reforms of the public budget and accounting methods.

It also contributed to setting international standards for the audit of public finance and provided assistance to the different entities when they had to convert from a single entry accounting system to an economic accounting system.

The Court of Audit gears its internal organization and working to certification. To this end it made significant efforts to optimize its financial audits, notably by recruiting specialized auditors and drawing up an adapted audit method based on generally recognized audit standards and standard audit techniques and practices.

However, adjusting its internal organization and working in function of certification does not go far enough. Certification only makes sense when all the conditions ensuring reliable accounts are met. This includes the need for legal, organizational and procedural guarantees of an efficient, transparent and timely accounting process. Moreover, financial reporting must comply with national and international accounting standards and best practices. Finally, the quality of the internal control procedures must ensure that the risks related to accountability are covered.

All above-mentioned conditions are not met yet, notably the prerequisites regarding internal control and internal audit.

The legal certification requirements in some federated entities imply that the Court of Audit must certify separately the accounts of the general services and of every public service and public body, which will undoubtedly entail a proportional increase of the Court's audit activities. This will certainly be the case if certification is extended in the future to other accounts that are to be submitted to the Court of Audit. Practice will show whether a solution might be to perform certification at a higher level of consolidation, e.g. at the level of a group of services and public bodies, at the level of the legal entity or at the level of the entity's consolidated general account. An adaptation of the normative framework will then be required.

Certification at a higher level of consolidation is only possible inasmuch as the Court of Audit can further base its audit activities on the findings of other auditors (principle of *single audit*).

Moreover, the Court of Audit is bound by a strictly limited timescale for auditing the accounts and submitting its certification opinion to the parliaments. In order to meet the legal deadlines it will not only have to adapt its internal and external reporting lines but it will need above all to receive the accounts and underlying documents in a timely manner.

Finally, it is important to keep in mind that the Court of Audit has to perform audits of financial statements, but also legality and regularity audits, as well as performance audits. It would not be desirable for the certification of accounts to be performed at the expense of the quality and intensity of the other audits, which contribute to improving the working of the public services.