

Brussels, 16 July 2024

Annex 1 to Circular NBB_2024_12

Template for the structure and content of the comprehensive report

Scope of application

Accredited auditors and accredited audit firms with a view to performance of an engagement as accredited statutory auditor for the following types of financial institutions:

- credit institutions governed by Belgian law;
- stockbroking firms governed by Belgian law;
- central securities depositories, organisations providing support to central securities depositories and custodian banks governed by Belgian law;
- authorised and designated financial holding companies and mixed financial holding companies governed by Belgian law;
- investment holding companies and mixed financial holding companies governed by Belgian law included in the scope of supervision on a consolidated basis or review of the capitalisation test of a group of investment firms carried out by the National Bank of Belgium;
- insurance or reinsurance companies governed by Belgian law;
- the entities¹ responsible for an insurance or reinsurance group, within the meaning of Articles 339(2) and 343, paragraph 2(1) and (2), of the Act of 13 March 2016 on the legal status and supervision of insurance and reinsurance companies, for which the National Bank of Belgium has been designated the group supervisor within the meaning of Articles 407 and 408 of the aforementioned legislation.

¹ More specifically (i) insurance companies or reinsurance companies governed by Belgian law that hold a stake in at least one insurance or reinsurance company established in the EEA or in a third country, (ii) insurance or reinsurance companies whose parent company is a mixed holding company, or a mixed financial holding company established in the EEA or in a third country, and (iii) insurance holding companies or mixed financial holding companies governed by Belgian law that are the parent company of an insurance or reinsurance company governed by Belgian law.

1. EXECUTIVE SUMMARY

- 1.1. POINTS FOR ATTENTION, CONCLUSIONS, OPINIONS AND CONFIRMATIONS - The purpose of the executive summary is to set out points for attention and problems, in particular prudential issues, to which the accredited statutory auditor deems it necessary to draw the supervisory authority's attention, based on the auditor's knowledge of the financial institution and the supervisory authority's prudential expectations, with clear references to the relevant sections of the present report for more information.

In each of the following sections, the accredited statutory auditor shall set out in full the points for attention, conclusions, opinions and confirmations contained in the various auditor's reports provided to the supervisory authority.

- 1.2. CONFIRMATIONS BY THE ACCREDITED STATUTORY AUDITOR - The accredited statutory auditor shall expressly confirm the following:

- 1.2.1. CONFORMITY OF THE REPORTS – Accredited statutory auditors shall confirm that the reports prepared further to their duties under public law and private law listed under points 2 to 7 below, and referred to in the comprehensive report, were prepared in accordance with the applicable standards issued by IREFI-IRAIF and that they do not contain any changes of form or substance.
- 1.2.2. CHANGES MADE TO THE ABOVEMENTIONED REPORTS AND JUSTIFICATIONS – Any changes of form or substance made to the auditor's reports, for whatsoever reason (change of terminology, new standards, other work, etc.), shall be clearly highlighted in the reports concerned and explained in the comprehensive report so that the relevant departments of the supervisory authority are clearly informed and can, if necessary, take them into account.
- 1.2.3. EXHAUSTIVENESS OF THE ITEMS COVERED BY THE COMPREHENSIVE REPORT - Confirmation that all comments, recommendations and conclusions contained in the abovementioned auditor's reports are expressly included and detailed in the comprehensive report.

2. REPORTS ON PERIODIC PRUDENTIAL RETURNS AND FINANCIAL STATEMENTS

- 2.1. SCOPE OF THE ACCREDITED STATUTORY AUDIT ENGAGEMENT – Standalone (Belgian statutory accounts) and/or consolidated financial statements and periodic prudential returns which must be audited by the accredited statutory auditor. The periodic prudential returns are listed on the financial institution's "reporting sheet" and, in the case of credit institutions, based on the revolving audit plan agreed annually with IREFI-IRAIF.

2.2. MATERIALITY THRESHOLDS

- 2.2.1. RECAP OF THE MATERIALITY THRESHOLDS applicable to the audit of periodic prudential returns and financial statements as set out in the audit plan submitted to the supervisory authority.
- 2.2.2. CHANGES TO THE MATERIALITY THRESHOLDS AND JUSTIFICATIONS - If the accredited statutory auditor is obliged to change/adapt the materiality thresholds indicated in the audit plan during the course of the audit, the auditor shall provide a full, detailed and justified explanation of the reasons for these changes/adaptations along with details on the calculations, qualitative and quantitative criteria used to determine and apply the

adapted thresholds, and the impact on the accredited statutory auditor's work, particularly with regard to the auditor's reports provided to the supervisory authority.

- 2.3. AUDIT OPINIONS ON PERIODIC PRUDENTIAL RETURNS/STANDALONE AND, WHERE APPLICABLE, CONSOLIDATED FINANCIAL STATEMENTS - If an opinion is not unqualified (e.g. a qualified opinion, an adverse opinion or a disclaimer of opinion),² the accredited statutory auditor shall include in this section the full text of the paragraph(s) setting out the opinion and explain the reasons for not issuing an unqualified opinion. This justification shall serve as a basis for the modified opinion mentioned in the audit report.
- 2.4. OTHER POINTS IN AUDIT REPORTS
- 2.4.1. KEY AUDIT MATTERS AND OTHER MATTERS - The accredited statutory auditor shall mention the key audit matters covered by the audit opinion on the standalone and/or consolidated financial statements. Where appropriate, if other matters (for attention) are raised in the auditor's reports on the financial statements and periodic prudential returns, these shall be further developed and explained in the comprehensive report.
- 2.4.2. LIMITATIONS ON PERFORMANCE OF THE AUDIT ENGAGEMENT - This point covers in particular limitations on performance of the audit engagement when, for example, the institution uses internal models to calculate own funds (capital) and/or interest rate risk in the banking book, etc.
- 2.4.3. ADDITIONAL REGULATORY CONFIRMATIONS - This item covers additional confirmations relating, in particular, to the correctness and completeness of the periodic prudential returns required by the supervisory laws and, if applicable, a justification for any problems encountered as well as the recommendations of the accredited statutory auditor.
- 2.5. ANALYSIS AND FOLLOW-UP OF THE AUDIT PLAN - In this section, the accredited statutory auditor shall describe the follow-up of the audit plan and the additional information submitted to the supervisory authority.
- 2.5.1. DIFFICULTIES ENCOUNTERED DURING THE AUDIT - The accredited statutory auditor shall explain any difficulties encountered in executing the audit plan, any changes made to the plan and any substantive audit work carried out in addition to that originally planned, together with the reasons for the additional work and the impact on the auditor's reports.
- 2.5.2. SHORTCOMINGS IN THE CONTROL FUNCTIONS - Where shortcomings are identified in the independent control functions (internal audit, compliance, and risk management) which have a material impact on the audit opinion (on the periodic prudential returns and financial statements), the accredited statutory auditor shall mention them in this section (in connection with the shortcomings identified in section 3 below).
- 2.6. SIGNIFICANT RISKS - FINDINGS & CONCLUSIONS
- 2.6.1. SIGNIFICANT CHANGES IN THE FINANCIAL INSTITUTION'S ACTIVITIES - Significant changes in the financial institution's activities that have affected or are likely to affect its periodic prudential returns and the audit approach implemented in response.
- 2.6.2. CHANGES IN RISKS (CREDIT, MARKET, OPERATIONAL, INTEREST RATE, TECHNICAL, ETC.) - The accredited statutory auditor shall explain any significant changes, observed in the

² In such circumstances, accredited statutory auditors shall make use of the early warning function as soon as possible.

course of the audit work, in the risks³ to which the financial institution is exposed, either specifically or systemically (regulatory and/or macro-economic changes that have an impact on the financial institution's (prudential) situation), and which have influenced and/or are likely to influence its periodic prudential returns and continuity (identification of audit risks) and the audit approach implemented in response.

In this section, the accredited statutory auditor shall also discuss reputational risks and the risk of non-compliance by the institution with laws, regulations and the instructions of the supervisory authority.

- 2.6.3. SOLVENCY, LIQUIDITY AND PROFITABILITY OF THE INSTITUTION & MATERIAL LITIGATION - The accredited statutory auditor shall discuss with the institution significant changes in its solvency, liquidity and profitability, financial position, balance sheet and off-balance sheet positions, and litigation. Where appropriate, based on these discussions and the information obtained in the course of the accredited statutory auditor's engagement and taking into account the applicable materiality threshold, the accredited statutory auditor shall notify the supervisory authority of significant changes that have occurred or are expected to occur in these areas and of material ongoing litigation and the related provisioning insofar as these matters are not covered elsewhere in the report.
- 2.6.4. INTERNAL MODELS - The accredited statutory auditor shall explain and/or confirm the supervisory approach provided for by this circular relating to the use and implementation of internal models for the preparation of financial statements and/or periodic prudential returns.
- 2.6.5. ACCOUNTING AND REGULATORY ESTIMATES AND SENIOR MANAGEMENT'S ASSESSMENT - In this section, the accredited statutory auditor shall pay particular attention to accounting and prudential assessments/valuations that involved a significant degree of estimation⁴ and judgment. The accredited statutory auditor shall discuss the adequacy, quality and relevance of the data, assumptions and methods underpinning the most significant valuations used to prepare the periodic prudential returns.
- 2.6.5.1. MANAGEMENT BIAS - In this section, the accredited statutory auditor shall discuss the impact of potential management bias, if any, on the abovementioned valuations, in particular:
- ✓ Where a financial institution consistently uses valuations that indicate a tendency towards optimism or pessimism within a range of acceptable valuations or other indications of possible management bias, or
 - ✓ When a financial institution carries out transactions to achieve a certain accounting or regulatory result, so that the accounting or regulatory treatment is technically acceptable but hides the nature of the transactions.
- 2.6.5.2. CHANGES TO VALUE MEASUREMENT RULES - Where applicable, the accredited statutory auditor shall critically review changes to the measurement rules applicable to both periodic prudential returns and financial statements and explain the related impact on accounting and prudential data. The auditor shall confirm that these changes comply with the applicable regulatory framework.

³ The risks covered by the periodic prudential returns include, for example, credit risk, market risk, operational risk, capital/own funds requirements and their coverage, insurance technical risk, liquidity risk, interest rate risk, etc. (This list may be adapted to reflect changes in the prudential framework.)

⁴ This includes fair value measurements in accordance with IFRS 13 - *Fair Value Measurement*, as well as measurements under Solvency II.

2.6.5.3. USE OF EXPERTS - The extent and quality of valuation work entrusted to (external) experts, and the measures taken in this respect by the accredited statutory auditor.

2.6.6. DIFFICULTIES ENCOUNTERED IN THE MEASUREMENT OF ACCOUNTING AND PRUDENTIAL ITEMS - The accredited statutory auditor shall set out any significant difficulties encountered in the measurement of assets, liabilities and off-balance sheet items, the recognition of revenue, the determination of regulatory capital/own funds, and the calculation of data relating to prudential risks specific to the institution.

2.6.7. POINTS FOR ATTENTION RAISED BY THE SUPERVISORY AUTHORITY & IREFI-IRAIF - This item covers the follow-up of specific points for attention raised by the supervisory authority for a particular financial institution or sector of activity and/or those points set out in the IREFI-IRAIF's annual "*Attention Points*" letter and the related audit approach.

2.6.8. AUDIT ADJUSTMENTS - The "*Summary of (Adjusted and Unadjusted) Audit Differences*" relating to financial statements and periodic prudential returns with reference to the respective materiality thresholds defined for the audit of these statements and returns.

2.6.9. SPECIAL TASKS UNDER THE CCA - If special tasks have been entrusted to the accredited statutory auditor under the CCA and reports issued, they shall be referred to in this section.

3. INTERNAL CONTROL

3.1. OVERALL ADEQUACY OF INTERNAL CONTROL - In the framework of their engagement, accredited statutory auditors are required to analyse critically the overall adequacy of the design of the internal control environment.

3.2. FINANCIAL & PRUDENTIAL REPORTING - Accredited statutory auditors shall summarise and analyse their findings on the design of internal controls relating to financial and prudential reporting. Where considered relevant by the accredited statutory auditor or for key processes, tests to assess the effectiveness (implemented and operating effectively) of these controls shall be carried out further to the accredited statutory auditor's duty of cooperation with prudential supervision. In that case, the auditor shall describe here the main findings and conclusions.

3.3. SENIOR MANAGEMENT'S ASSESSMENT METHODOLOGY – In this section, the accredited statutory auditor shall include a critical analysis of senior management's assessment of internal control, commenting on (i) the appropriateness of the methodology applied, (ii) the scope of the assessment, and (iii) any inconsistencies between the content of the assessment and the information and evidence gathered during the audit of the financial statements and the periodic prudential returns.

3.4. MATTERS OF GENERAL INTEREST - The abovementioned critical analysis shall also include matters of general interest: specific mechanisms, compliance, risk management and internal audit.

3.5. FOLLOW-UP OF RECOMMENDATIONS – In this section, the accredited statutory auditor shall set out all recommendations made to the management committee or, where applicable, the audit committee and the shortcomings noted insofar as these are not covered by the accredited statutory auditor's recommendations to the management committee or, where applicable, the audit committee. These include remedial measures and the schedule/timetable for the implementation thereof drawn up by senior management of the financial institution in response to:

- ✓ shortcomings identified in the management body's assessment report on internal control and the follow-up actions taken by the institution;

- ✓ the recommendations made and shortcomings noted by the accredited statutory auditor (during the financial year to which the statutory audit engagement relates or during previous financial years), indicating, where applicable, any recommendations and shortcomings that have not been acted on by the institution and/or that were not covered by the management body's assessment report on internal control.

4. INTERNAL CONTROLS RELATING TO INVESTMENT SERVICES AND ACTIVITIES⁵

Accredited statutory auditors shall express their observations and conclusions on this subject in a critical manner.

5. SPECIFIC MECHANISMS

This section shall include the observations and comments of the accredited statutory auditor on the prohibition on and implementation by the financial institution of special mechanisms.

6. CONFIRMATION OF INDEPENDENCE & REPORTING ON TIME SPENT

6.1. CONFIRMATION OF INDEPENDENCE - Formal confirmation of the independence of the accredited statutory auditor (natural person and/or accredited audit firm) and the members of the audit team,⁶ including experts, assigned to carry out duties under public law and private law (mentioning any changes made to the composition of the audit team with a justification for these changes).

6.2. COMPARISON OF THE TIME BUDGET WITH TIME SPENT – This section contains information on the time budget (submitted along with the pre-audit information) and the time effectively worked by the audit team, including experts called upon by the accredited statutory auditor in the course of the audit engagement. This point shall include an analysis of significant variations of more than 10% between the budgeted time and the time effectively worked, highlighting the main causes for these differences and the potential impact on prudential supervision by the supervisory authority. The summary shall include the names of key members of the audit team and external experts as well as their respective experience and qualifications.

7. OTHER POINTS FOR ATTENTION BY THE SUPERVISORY AUTHORITY

Any other aspects (to be numbered) which the accredited statutory auditor considers important and relevant for the exercise of prudential supervision by the supervisory authority.

⁵ For financial institutions in which the management body is obliged to draw up a report on the assessment of internal controls in relation to investment activities and services.

⁶ Where appropriate, cooperation with third parties and/or external parties (experts, others, etc.).