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## Auditing in Belgium

Maurice Anspach

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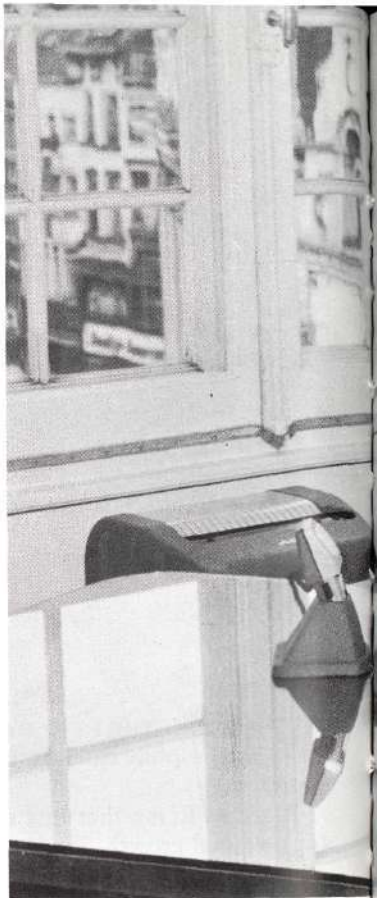
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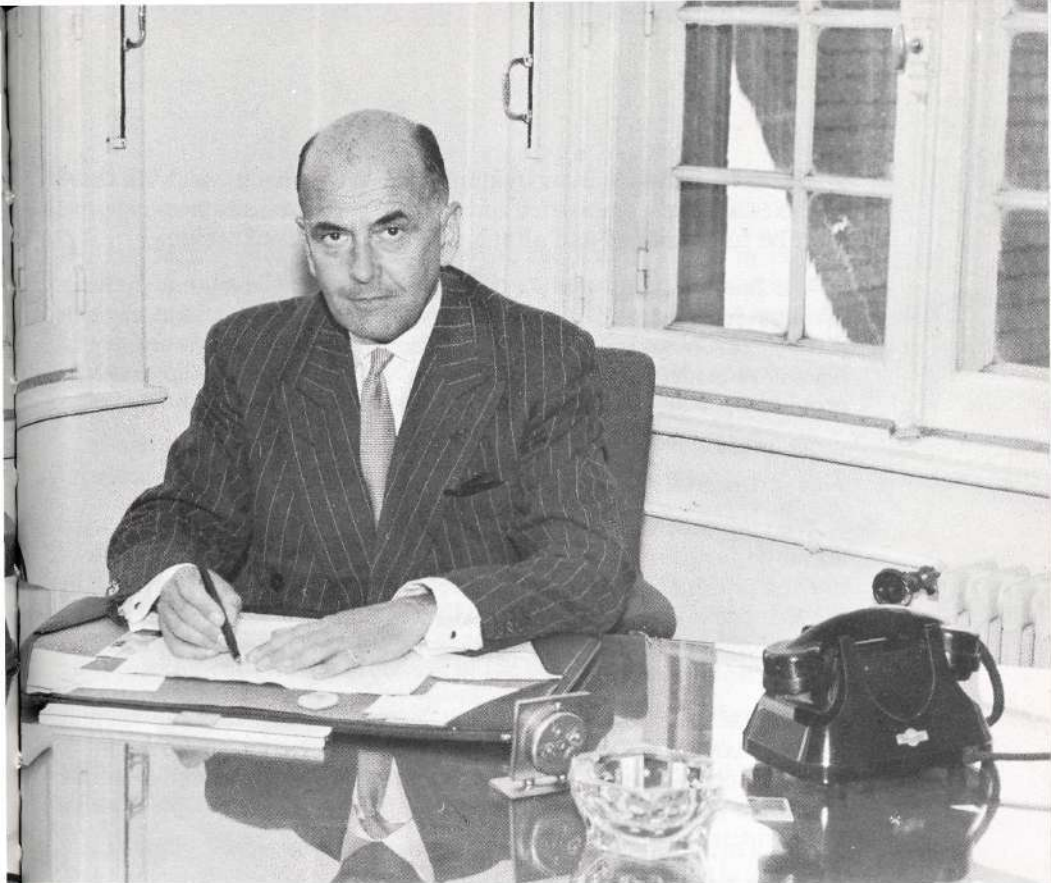
We have asked Partners  
of the various firms  
represented in the  
International Group  
to tell us about  
themselves and how they  
work. Maurice Anspach,  
shown at right in his  
Brussels office, writes  
about **AUDITING IN  
BELGIUM**



**T**O BEGIN, IT MIGHT BE ADVISABLE TO MAKE A RESUME of what accountancy has been in Belgium and what it is now becoming since we consider accountancy to be the very basis of auditing. Professional accountancy is carried on either by private persons called "Expert Comptables" or by corporations called "Fiduciaires." Partnerships are unusual in our country perhaps because we feel that such associations have risks.

In our country, accountancy has always been considered a non-profitable service; i.e., a service of minor interest. This way of thinking on the part of manufacturers and small and average merchants has been encouraged by the provisions of our laws.

Our Trade Code which dates back to 1872, provides as the sole duty for the merchant to keep: (1) a ledger, (2) the letters he receives, and (3) a copy of the letters and telegrams he sends out. This pro-



vision results from Article 16 of the Trade Code which also states that the other books and documents used in accountancy are not indispensable.

Article 17 of the same Code provides for businessmen to keep an inventory book of which every page is numbered and initialed by a judge. In this book an inventory statement of all the assets must appear once a year.

The law on corporations which dates back to July 22, 1913, did not improve the regulations mentioned above.

Despite this situation, one should not think that Belgium is subject to anarchy with regard to bookkeeping. Other laws have been established since then requiring industry managements and merchants to keep more and more complete documents.

The laws on income tax require special documents such as those for taxes withheld on salaries and wages. Journal entries and expenses must be fully justified and all this calls for good bookkeeping.

The law on stamp taxes requires also that the company preserve invoices received and duplicates of invoices sent out, and register them in chronological order in a special journal. Furthermore, social laws have added their contribution to the structure thus erected by providing for the keeping of special books.

### ***Tax administration required regular books***

We may conclude by stating that accounting rules have both a legal and a de facto existence. They derive largely from a complication of our tax laws since 1945. It may even be asserted that it is principally the tax administration which finally required the keeping of regular books for all taxpayers: manufacturers, merchants and even sometimes private people.

Manufacturers and merchants at last understood that the keeping of books could render them double service: they constituted the proof of their income, a proof which the tax authorities were bound to admit; and these records supplied valuable information on the progress of the business.

At the risk of repeating the same thing over again, we would insist on the fact that *large* firms have, for a long time past, been perfectly well organized from the point of view of bookkeeping.

We may finally state that if in the past bookkeeping was often slighted, the same remark applies to audits of such bookkeeping.

The notion of accounting control was born in our country after the first world war. The first companies similar to ours came into existence around 1920. Our own Company was formed in 1933 by an eminent man, Mr. Max Leo Gerard, who was our first Chairman, retiring from duty in 1935 when he was appointed Minister of Finance.

Audits became more and more necessary whenever a financial group invested in manufacturing or commercial businesses, or on the occasion of requests for bank credit.

With regard to audits of Joint-Stock companies, the law provides for the institution of a "Commissaire" entrusted with the supervision of the books and of the operations of such companies. His personal responsibility is considerable, for he has to certify that he has gone



over the accounts as established by the board and the shareholders' meeting must approve or reject them.

The law imposes severe penalties on the Commissaire in case of neglect of duty. The Commissaire is nominated by the shareholders and represents them. The consequence of this system is that members of the board are elected by the shareholders in the same way that the Commissaire is. The duty of the Commissaire is to supervise the members of the board. The elections are made by majority vote.

His duty, supervising the board, is to notify the shareholders' meeting of any failures he might have seen. Such failures may be the non-observation of the law on corporations or of the by-laws — or also might be quite different — embezzlement!!!

The Commissaire is responsible for the physical inventory. He must report that the balance sheet is in agreement with the books, that all disbursements have been legally made. He may have at his disposal all the documents, minutes, etc. . . . of the company.

Penalties of the Commissaire which are stated in the law are criminal. Economic penalties may be obtained by prosecution before the civil court. The claim must be, in that case, introduced by a shareholder.

In family businesses, unqualified Commissaires were often elected and sometimes such a task was given to former employees in acknowledgement of their services. In fact, before the last war, the elected Commissaire was frequently just fulfilling a legal obligation and did not have special technical knowledge.

Attention must also be drawn to a decree of 1935 organizing the supervision of banks. This decree created the "Commission Bancaire" which acts through a court of experts appointed by the Commission Bancaire itself. These experts belong to the "Institut des Réviseurs de Banque" which has its own discipline and which fixes auditing methods.

The Commission Bancaire centralizes all information received from the "réviseurs" and follows the movements of credit.

### *Trade unions enter the picture*

The Trade Unions, having been inspired by this organization, advocated the necessity of an audit on behalf of minority shareholders, hoping at the same time to obtain information on the business figures

of important corporations. They obtained the establishment of an Institute called "Institut des Réviseurs d'Entreprises."

The law of December 1953, requires that companies which have shares quoted on the Stock Exchange have at least one "Réviseur d'Entreprises." It was expected that the men accepted by the Institut des Réviseurs d'Entreprises would be capable and competent people, even more competent than those who could not obtain such approval.

In fact this did not occur because many competent experts have given up the idea of being members of the Institut des Réviseurs d'Entreprises because the incompatibilities with other duties were particularly severe and numerous.

Moreover, the law of 1953 gives special advantages to independent experts as against people employed by corporations. The result of this situation was that the Institut des Réviseurs d'Entreprises accepted among its members a lot of independent experts having no university education.

The duty of the Réviseurs d'Entreprises is to audit the balance sheet of the corporations and to make a brief report to the shareholders' meeting. This report is a separate report from the one introduced by ordinary "commissaires."

The Réviseurs d'Entreprises also gives a certification of the balance sheet for the "Conseils d'Entreprise" which are small boards elected by workmen and Trade Unions from among the personnel of the important corporations. The certificate given by the Réviseurs d'Entreprises is without importance for the Ministry of Finance, which may make all amendments in the accounts as permitted by the law or the regulations.

Finally, the salary of the Réviseurs d'Entreprises is fixed by the Institut, paid by the corporation and is as a rule a heavy burden for small concerns.

It is necessary to point out that in our country no law protects the title of accountant or expert in accountancy. Some experts are accepted by courts or tribunals but this does not mean anything as courts or tribunals may appoint as experts any person of their own choice. As judges are usually well informed about the qualification of the people they nominate, they appoint the experts without taking into consideration whether they are or are not members of one or the other institute or organization.

The conclusion of this is that the profession of auditor or expert in accountancy is on the way to being organized in our country, but it will take a few years before the organization is fully completed.

### *A difference in the moral aspect*

From the technical point of view, auditing methods used in Belgium are similar to those used in the English speaking countries. The fact that numerous documents are necessary for the transmission tax, which applies to all invoices as well as the numerous statements which must be furnished to the Income Tax administration, facilitates auditing work.

The technical organization of the audit is in principle in the hands of the auditor but it must cover the whole activity of the controlled corporation.

An important difference exists in the moral aspect of the auditing work, and to understand it we must refer again to the law on corporations.

According to Article 77, every year the Board of Directors draws up a balance sheet and a profit and loss account in which the necessary amortizations must be reflected. Numerous court decisions have enforced the idea that the shareholders' interests would be secured only if the amortizations are sufficient and if the assets are not overstated. In consequence, the members of the Board, the commissaire or the Réviseur are covered, each time the balance sheet is established with prudence. The fact that a corporation might distribute small dividends though able to give more important dividends, has no influence on the auditing work or on the certification of a balance sheet. The responsibility of the auditors is covered by the legal wording which is favorable to the increase of reserves.

On the other hand, we think that in the United States the certification of a balance sheet also means that the profits available for dividends to shareholders correspond really to the profits realized by the corporations.

Our laws encourage the establishment of reserves:

- as they are taxed lower than dividends
- and as they are the guarantee of shareholders and creditors.

The management of corporations try to increase the reserve either by



setting aside profits or by underestimation of inventory or by important amortizations.

Of course, the Ministry of Finance wants to levy its fair share of the profits, and thus attempts to rectify estimates, and rejects exaggerated amortizations and fixes the taxable income. Consequently, in effect there is besides the official balance sheet audited and certified according to legal prescriptions, approved by shareholders and published in the Official Paper, another "fiscal balance sheet," different from the first, which is neither approved by the shareholders nor published in the Official Paper. The balance sheet amendments required by the Ministry of Finance may not be known for as long as three years after the publication of the official balance sheet. The only copy of the "fiscal balance sheet" is in the files of the Ministry of Finance and it is not necessary for a company to adjust its books to agree. However, it is most important in considering an investment in an existing corporation to be informed as to its "fiscal position."

Nevertheless, there is no contradiction between the fiscal and the commercial law as the aim of the first is to raise taxes on profits in a legal way while the other attempts to fix the profits with prudence. However, prudence which is not accepted by the Ministry of Finance will be paid for by way of taxes.

***"One should not confuse liberty with anarchy . . .  
the essential point: Stick to principles."***

One should not confuse the liberty we enjoy in accountancy in our country with anarchy. In our big business enterprises, very strong traditions have existed for a long time and these call for seriousness. Accounting books are well maintained.

The organization of the profession of auditor or accountant expert is on its way to being admitted by law and even small and medium-sized enterprises start having audits as this service becomes a productive one because of the complications of the administration of any enterprise.

The essential point for a firm like ours is to stick to principles, to assist in the general meetings of the audited corporations and to use all means for keeping a high professional status.



## **ABOUT THE AUTHOR**

MAURICE ANSPACH, Managing Director of the Société de Contrôle Fiduciaire, is a member of a well known Brussels family which gave its country three members of parliament, one burgmeister of Brussels, and one ambassador.

Mrs. Anspach is herself a member of the board of trustees of Brussels University and President of the city's Public Health Commission. (She receives no payment for this full-time job.)

In 1929 Maurice Anspach received a law degree and went into private business—first as secretary to the management, then as chief of the purchase department and finally as manager of the Société de Contrôle Fiduciaire in 1941. He became managing director in 1948.

During the war Mr. Anspach was in the Belgian underground. After the liberation, he volunteered as a liaison officer with the U.S. Army and was awarded the medal of freedom by the United States.

*Seniors have a lively discussion at the Brussels Office. Below, from left, Messrs. Dewerpe, Van Den Hende, and Savy with Mrs. Rue.*

