Cover note to the application of the International Standards on Auditing (ISAs) in the context of an audit of financial statements[1] of companies active in the diamond sector

1 In this note, we only use the term 'financial statements'. This term also applies to the annual accounts contemplated by the Belgian Companies Code (*W. Venn./C. Soc.*).

Contents

General introduction to the Belgian diamond trade

The Antwerp Diamond Trading Centre is regulated to promote the transparency of goods and monetary flows in the Belgian diamond trade, including:

- the recognition and registration system for diamond dealers;
- the precise controls of goods carried out by the FPS Economy in the context of the so-called 'Diamond Office';
- the procedure of the 'Kimberley Process Certification Scheme' (KP);
- the annual declaration of the level of stocks by all diamond dealers;
- several measures linked to the preventive aspects of the Belgian anti-money laundering legislation (including strict 'Know-Your-Customer' requirements (KYC)).

The Antwerp diamond trade includes large and medium dealers as well as a significant group of small diamond dealers that are crucial to the liquidity and depth of the diamond trade.

It is inherent to the Antwerp diamond trade that diamonds are purchased in parcels and that added value is created by (re)sorting these parcels to meet the specific needs of (final) customers. Also, diamonds are often submitted to processing and modification processes. Thereby monitoring the goods flow is extremely difficult.

Audit difficulties for registered auditors

It was established that in the past the registered auditors with a statutory auditor's mandate in companies active in the diamond sector expressed, in many cases, a qualified opinion or a disclaimer of opinion in their audit report on the financial statements. The expression of a qualified opinion or disclaimer of opinion was generally justified by the aforementioned fact that there could not be gathered sufficient audit evidence regarding (i) the existence of stocks and (ii) the measurement of these stocks. The frequently-given reason to explain why concerned the fact that, due to the nature of the traded goods, it was not possible to obtain adequate assurance about the quantity and measurement of goods included in the stock.

When auditing financial statements, the statutory auditor is faced with the following specific elements related to the diamond sector:

- there is no standardized unique price. Each diamond is unique and its price and value is partly determined by supply and demand and the 4 Cs (i.e. cut, clarity, colour and carat);
- invoices of diamond companies are insufficiently or not detailed. Only the total number of carats and the purchased price are indicated and not the price or carat of each stone separately. Although diamonds are traded in bulk as wholesale goods or raw materials, each stone undeniably has its own characteristics;

- the number of carats undergoes changes pursuant to the diamond processing. This implies that no reconciliation can be made between the number of carats indicated on the invoice (and reported to the FPS Economy) and the number of carats sold as stated in the financial statements. Cleaving, sawing, grinding, etc. lead to deviations in plus or minus causing serious practical problems regarding stock monitoring;
- diamond parcels are (re)sorted according to the specific needs of (final) customers; this is the determining business model for Antwerp.

Objective of this note

This note sets out issues that may be useful in the audit of the financial statements of large companies active in the diamond sector in accordance with the in Belgium applicable International Standards on Auditing (ISAs), which may be used by the statutory auditor in the diamond sector. It is true that this list is not exhaustive and thus contains only a few specific (sample) questions.

For the sake of completeness, it is recalled that only 'large' companies (see Article 15 of the Belgian Companies Code) are required to appoint a statutory auditor for the audit of financial statements. Having regard to the relevant criteria, it can be concluded that as of today only around 400 diamond companies must fulfil this requirement.

This note does in no case substitute the application of the International Standards on Auditing (ISAs).

More specifically, this note aims at clarifying the circumstances under which a statutory auditor may express either an unmodified opinion (unqualified or clean opinion) or a modified opinion (qualified opinion).

However, it should be emphasised that the statutory auditor's individual assessment and consideration of each particular situation (i.e. the so-called 'professional judgment') has to be considered at all times.

In each chapter and/or for each phase of the audit engagement, a distinction is made between the general ISA principles and the considerations specific to the diamond trade.

The statutory auditor’s responsibilities

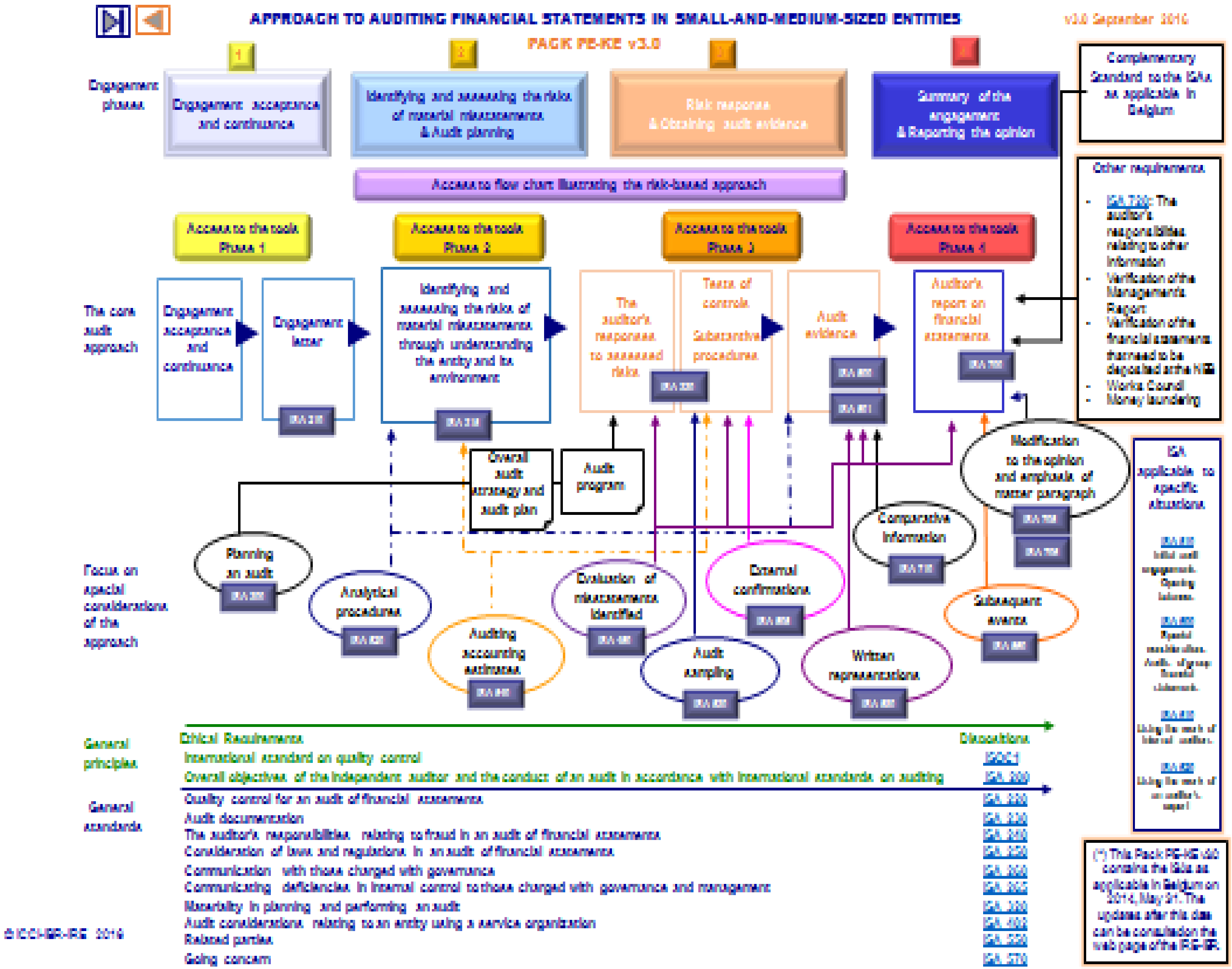
1. *General ISA principles*

According to the Belgian Companies Code, the statutory auditor’s responsibilities consist, inter alia, of verifying whether the financial statements give a true and fair view in accordance with the applicable financial reporting framework, the compliance with the Belgian Companies Code and the bylaws and with the performance of procedures regarding the directors’ report prepared by the board of directors of the audited entity. According to the standard of the IBR-IRE dated 10 November 2009, the audit of the (consolidated) financial statements of all entities for the financial years ended on or after 15 December 2014, is conducted in accordance with the ISAs.

The main purpose of the intervention of the statutory auditor is to enhance the degree of confidence of intended users in the (consolidated) financial statements. This is accomplished by the fact that the statutory auditor expresses an opinion on the question whether the (consolidated) financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. Therefore, in performing audit procedures, the statutory auditor will intend to obtain reasonable assurance about whether the (consolidated) financial statements prepared by the board of directors of the (audited) entity are free from material misstatement, in accordance with the applicable financial reporting framework.

2. Schematic overview of the phases of the audit process for financial statements

The performance of audit procedures in the context of an audit of financial statements is summarised briefly in the following figure.


APPROACH TO AUDITING FINANCIAL STATEMENTS IN SMALL-AND-MEDIUM-SIZED ENTITIES
PACK PE-KE v3.0
v3.0 September 2016
Engagement phases
Engagement acceptance and continuance
Identifying and assessing the risks of material misstatements & Audit planning
Risk response & Obtaining audit evidence
Summary of the engagement & Reporting the opinion
Complementary Standard to the ISAs as applicable in Belgium
Access to flow chart illustrating the risk-based approach
Access to the tools Phase 1
Access to the tools Phase 2
Access to the tools Phase 3
Access to the tools Phase 4
Other requirements
ISA 720: The auditor's responsibilities relating to other information
Verification of the Management's Report
Verification of the financial statements thereof to be deposited at the NBB
Works Council
Money laundering
The core audit approach
Engagement acceptance and continuance
Engagement letter
Identifying and assessing the risks of material misstatements through understanding the entity and its environment
The auditor's responses to assessed risks
Tests of controls
Substantive procedures
Audit evidence
Auditor's report on financial statements
Overall audit strategy and audit plan
Audit program
Modification to the opinion and emphasis of matter paragraph
ISA applicable to specific situations
Comparative information
Focus on special considerations of the approach
Planning an audit
Analytical procedures
Auditing accounting estimates
Evaluation of misstatements identified
External confirmations
Audit sampling
Written representations
Subsequent events
General principles
Ethical Requirements
International standard on quality control
Overall objectives of the independent auditor and the conduct of an audit in accordance with international standards on auditing
Dispositions
ISQC1
ISA 200
General standards
Quality control for an audit of financial statements
Audit documentation
The auditor's responsibilities relating to fraud in an audit of financial statements
Consideration of laws and regulations in an audit of financial statements
Communication with those charged with governance
Communicating deficiencies in internal control to those charged with governance and management
Materiality in planning and performing an audit
Audit considerations relating to an entity using a service organization
Related parties
Going concern
ISA 220
ISA 230
ISA 240
ISA 250
ISA 260
ISA 265
ISA 320
ISA 402
ISA 550
ISA 570
(*) This Pack PE-KE v3.0 contains the ISAs as applicable in Belgium on 2014, May 31. The updates after this date can be consulted on the web page of the IRE-IBR.
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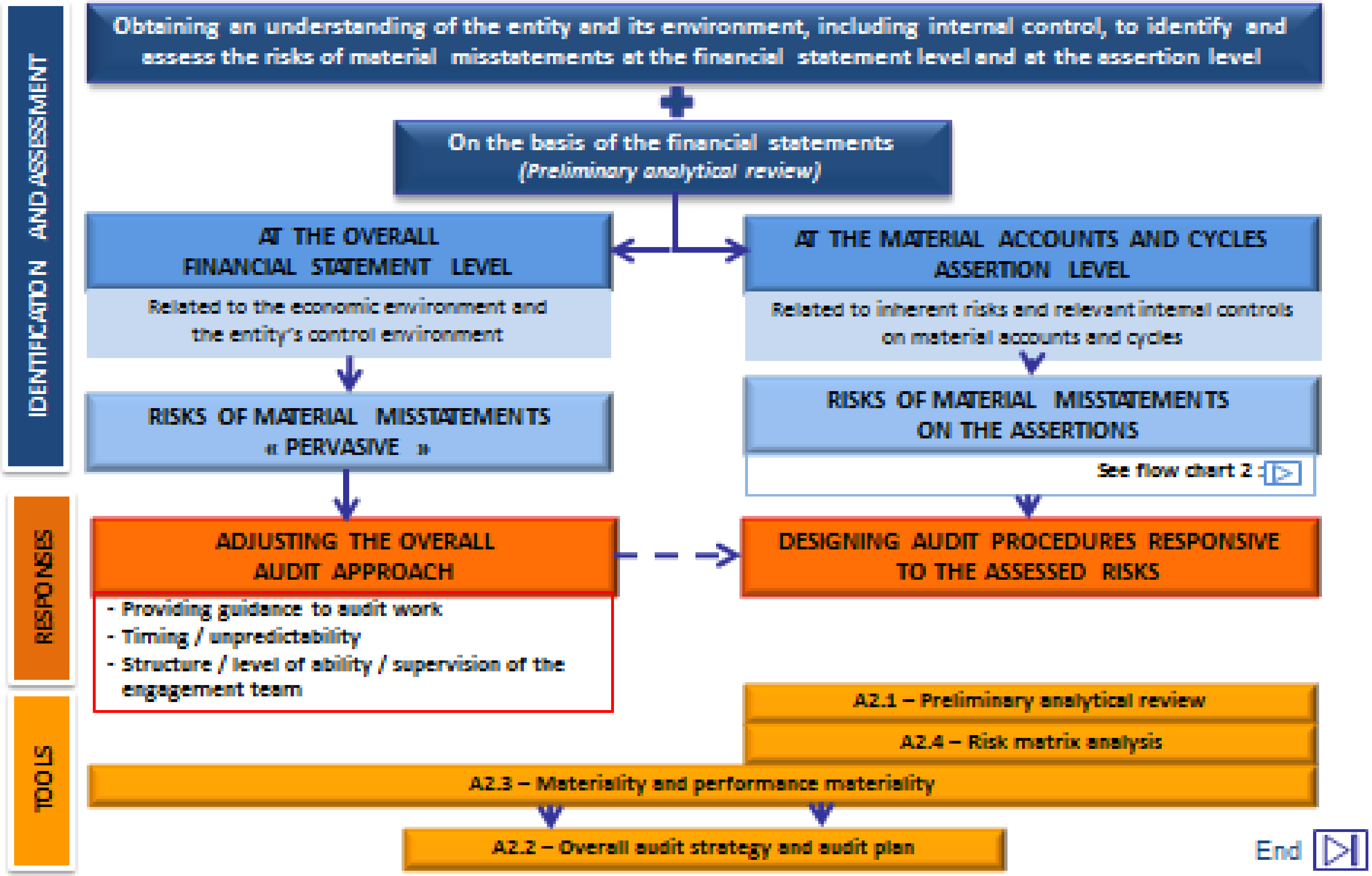
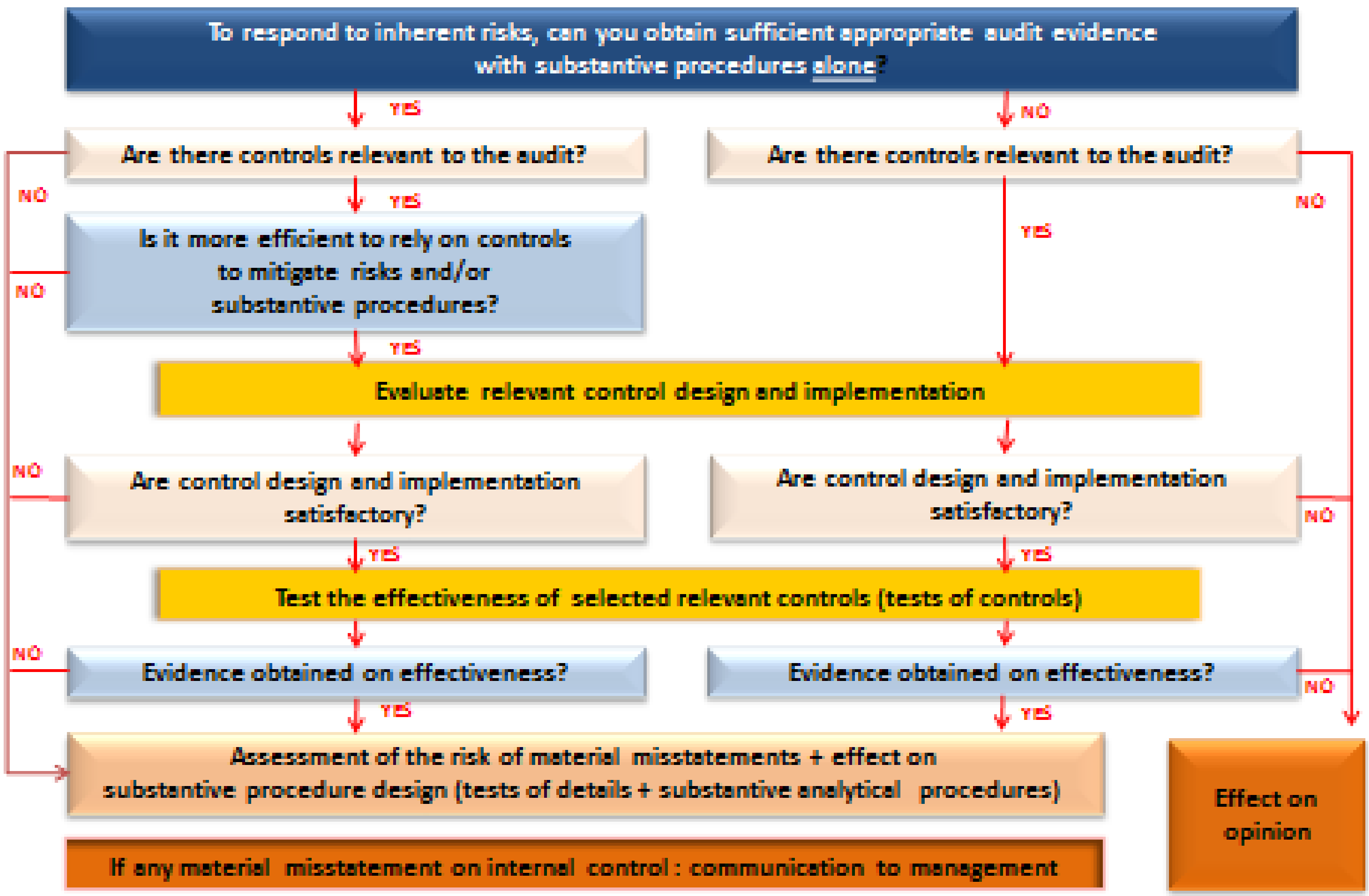
Flow chart 1 : Risk-based approach



Flow chart 2 : Designing audit procedures on material cycles and accounts



For « significant inherent risks that require special audit consideration », called « significant risks » - specific approach (see ISA 315.27 to 29)

Phase 1: Acceptance and continuation of the engagement

1. General ISA principles

The statutory auditor's objective in this first phase is to assess the feasibility of the engagement regarding:

- the entity's characteristics;
- the structure of the statutory auditor's firm and of their network;
- compliance with the fundamental ethical requirements and in particular regarding independence.

The statutory auditor must assess in advance whether they have the necessary knowledge and skills to accept the engagement (ISA 210). ISA 210 (par. 7) also provides that if the statutory auditor does not obtain from management access to the internal control procedures and therefore knows in advance that they will issue a disclaimer of opinion, they cannot accept the engagement (scope limitation).

When accepting the engagement, the statutory auditor also has to obtain reasonable assurance about whether they will be able to exercise their powers as stated in Article 137, § 1 of the Belgian Companies Code. Pursuant to their mandate, they must, more specifically:

- obtain access to all data and files of the company;
- be able to carry out any physical observations they deem necessary; and
- obtain all information from the board of directors and company officials.

To this end, the statutory auditor asks the client to confirm in the engagement letter a number of explicit assumptions (which were discussed during the engagement acceptance stage). It concerns the following assumptions:

1. The statutory auditor's report states that the company's board of directors is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework applicable in Belgium. As in any other sector, the client must be pointed out in the engagement letter that the company's management is responsible for:
   - designing, implementing and maintaining appropriate controls relevant to the preparation of financial statements to ensure that they are free from material misstatement, whether due to fraud or error;
   - selecting and applying appropriate accounting policies;
   - making accounting estimates that are appropriate in the circumstances;
   - the fact that the board of directors provides the statutory auditor with:
     - all information of which the board of directors is aware that is relevant to the preparation of the financial statements such as the accounts, the related documentation, including the minutes of the board of directors and general meetings of shareholders, as well as all the information and disclosures deemed necessary by the statutory auditor for the performance of their mandate;
     - all additional information that the statutory auditor may request from the board of directors for the purpose of the audit;

    - unrestricted access to persons within the entity from whom they determine it necessary to obtain audit evidence.
2. As always, the client must also confirm that during the engagement they will always provide the necessary documentation to identify themselves, the representatives and the final beneficiaries.
3. The client logically agrees that the statutory auditor will request written representations in the form of a representation letter on the statements which have a significant impact on the financial statements following the reporting. This annual representation will include, among others, written representations from management that they:
    - acknowledge their responsibility for designing, implementing and maintaining an appropriate internal control system to prevent and detect fraud;
    - will disclose to the statutory auditor the results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud;
    - will disclose to the statutory auditor their knowledge of fraud or suspected fraud involving: management; employees who have significant roles in internal control; or others (where the fraud would have a material effect on the financial statements);
    - will disclose to the statutory auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others;
    - in the case of an audit engagement for which the prior year has not yet been subjected to an audit by a statutory auditor, it is recommended to have also mentioned in the engagement letter the fact that to this end controls will need to be performed on the opening balance sheet of the first year of the mandate.

2. Considerations specific to the diamond sector

First, it is worth repeating that above principles should be observed in every sector, not only in the diamond sector. In other words, the diamond sector doesn't require a more stringent or different interpretation of the aforementioned principles.

It may also be stipulated in the engagement letter that the client has to confirm some elements related specifically to diamond trade, which were discussed during the engagement acceptance stage.

The following are indicative questions which may be asked:

- does the client have a stock management system that is sufficiently adapted to the size and characteristics of their activities?
- Given the specific characteristics of the diamond trade, it is useful to reflect on the stock system used by the client, whereby no system is *a priori* excluded, provided they meet the above basic principles. The underlying basic rule is that it is necessary but sufficient that the statutory auditor is granted appropriate access by the client to the entire stock management system, and that this provides sufficient guarantee for indelibility so that the statutory auditor can identify and assess possible adjustments;
- did the client update the stock measurement in the past?

– are the company or its appointed representatives involved in an ongoing criminal investigation or criminal case?
– has (a part of) the stock been seized on a precautionary basis?
– has stock been given or received on consignment? Were these transactions accounted for in accordance with the legislation in force?

The engagement letter may make reference to the possible need to rely on an external expert for testing the physical inventory counting at year end and the stock measurement, as well as the impact on the reporting when no expert has been engaged[2].

In accordance with ISA 210, the statutory auditor will – just like in any other sector – ask themselves whether they can accept the engagement if the board of directors does not or not sufficiently respond to certain material elements.

[2] In this context, we can also mention the fact that the official representative of the Antwerp diamond sector, AWDC, has taken a strategic initiative consisting of preparing a list of independent experts with experience in diamond measurement, who can be consulted by diamond companies and/or registered auditors (or other stakeholders) for stock measurement. A list of independent experts, formulated by the AWDC, is attatched to this cover note.

Phase 2: Identification and assessment of the risks of material misstatement and planning

1. General ISA principles

The statutory auditor's objective in this second phase is to obtain a thorough understanding of the entity, including the entity's internal control, to identify and assess the risks of material misstatement at the financial statement levels. The statutory auditor is responsible for establishing the overall audit strategy and developing an audit plan, with emphasis on the impact of the identified risks of material misstatement on the planned audit procedures. In doing so they must observe whether revenue recognition and the risk of management override of controls are suspected fraud risks. The statutory auditor shall determine the nature, timing and extent of audit procedures (both in terms of tests of controls and substantive procedures).

The objective of the auditor is to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels, through understanding the entity and its environment, including the entity's internal control, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement. (ISA 315, 'Identifying and assessing the risks of material misstatement through understanding the entity and its environment', par. 3)

- #### *Internal control*

As part of the risk assessment process, the auditor shall determine whether any of the risks identified are, in the auditor's judgment, a significant risk. In exercising this judgment, the auditor shall exclude the effects of identified controls related to those risks.

In assessing the risks of material misstatements and designing responses to those risks, the auditor takes into account the entity's internal control.

The entity's internal control system should prevent or detect and correct on a timely basis a misstatement that could have a material impact on the financial statements. A performant internal control system comprises five components:

- **Control environment**: the control environment is the foundation of effective internal control, providing structure and discipline for the entity. It sets the tone of an organization, influencing the control consciousness or awareness of its people (e.g. does the company have ethical values and integrity rules, a mission, a group structure, etc.?).
- **Risk assessment process**: management should periodically identify and evaluate the business risks relevant to financial reporting objectives and decide about actions to address those risks.

- **The information system, including the related business processes, relevant to financial reporting, and communication**: an information system consists of infrastructure (physical and hardware components), software, people, procedures, and data. Many information systems make extensive use of IT. They identify, capture, process, and distribute information supporting the achievement of financial reporting and internal control objectives.
- **Control activities relevant to the audit**: the company needs to implement manual and/or automated controls in order to prevent or reduce the identified risks, including the risks arising from IT.
- **Monitoring of controls**: the company needs to assess whether the controls relevant to financial reporting are effective.

In assessing the risk and the controls in the sales cycle, the statutory auditor will consider the results, among others, of the following risk assessment procedures:

- the entity's accounting policies related to revenue recognition and allowances for doubtful debtors;
- amount of sales to related parties;
- adequate separation between goods send in consignment to clients and goods sold to clients;
- aging analysis of accounts receivable and analysis of credit terms;
- concentration risk of sales and accounts receivables on certain counter¬parties;
- internal control related to credit management policies and procedures;
- gross margin analysis.

Where significant deficiencies in internal control are defined, the statutory auditor must report this in writing to the board of directors in accordance with ISA 265 ('Communicating deficiencies in internal control to those charged with governance and management').

- *Stock and goods movement*

In assessing these inherent risks and the controls in the stock and goods movement cycle, the statutory auditor will consider the results, among others, of the following risk assessment procedures:

- analytical procedures on the stock (average prices, average rotational speed, etc.);
- measurement rules and methodology adopted by the board of directors;
- the possible existence of less saleable or slow-moving goods in stock;
- the risk of manipulation of earnings and profits;
- the existence of a stock management system that is adapted to the nature and extent of the activity, and that, among other things:
    - allows to make a clear distinction between goods in ownership and goods received in consignment;
    - allows the traceability of goods from purchase to sale (however, see below under item 2);
    - includes a registration of the cost price of the goods.

2. *Considerations specific to the diamond sector*

When assessing and verifying internal control mechanisms, the size and scope of an individual diamond trader should be taken into account (see above).

- *Internal control*

Internal control over diamond dealers may have the following characteristics:

- Owner-managed businesses with active involvement of the owner-manager and limited or no staff.
- In such a case, segregation of duties is usually (very) limited. The active involvement of the owner-manager may mitigate certain of the risks arising from lack of segregation of duties or it may increase other risks, such as the risk of management override of controls.
- Absence of an established risk assessment process.
- Irrespective of these circumstances the auditor should inquire about identified risks and how they are addressed by management.
- The supporting information systems (billing, stock management, consignments, etc.) are, in many cases, stand-alone systems not linked to the accounting software.
- This does not have to pose a problem as such, but reconciliation procedures should be performed by the entity between the accounting system and the supporting systems.

Since the accounting function is normally outsourced to a professional service provider (third party), ISA 402 ('*Audit considerations relating to an entity using a service organization*') must be respected.

- *Stock and goods movement*

The following illustrative examples of business risks in the diamond sector may be given:

- market/price/volatility risk of rough and polished diamonds, as determined by global demand and offer;
- credit risk on domestic and foreign debtors;
- potential dependence on a limited number of clients and/or suppliers;
- the 'supply risk' as a major part of the world's diamonds production is supplied by a limited number of large suppliers.

The following illustrative examples of fraud risks may be given:

- susceptibility to misappropriation, due to the nature of the goods;
- the current market practice of consignment of goods as a consequence of which the custodian of the goods (consignee) differs from the legal owner of the goods (consigner);
- the risk of manipulation of earnings and profits.

A risk – specifically related to the manner in which diamonds are traded in Antwerp (business model) – that should be brought under attention is related to the existence and measurement of the section 'stocks'.

First of all, it should be reminded that the general Belgian accounting rules are in force: as a rule, assets are recognised on the balance sheet at purchase price, less contingent depreciation and impairment. In addition, it should be noted that, specifically with regard to stocks, the measurement has to be made at the lower market value (this lower value must probably be adjusted if this market value rises again). This is also provided in the underlying European Directive 2013/34/EU.

This Directive also takes the historical purchase price or production cost as point of departure for measurement at closing date. Although the directive foresees the possibility for the Member States to provide for special (measurement) rules for specific categories of assets (other than financial instruments), Belgium has not yet made use of it.

Whereas the statutory auditor always has to strive to achieve maximum transparency in the area of stock systems, certain activities (processing and (re)sorting of parcels) can make it extremely difficult to achieve single stone traceability. The statutory auditor should be able to obtain reasonable assurance about whether the stock measurement is not materially misstated. In this sense, Appendix 2 contains a suggestive questionnaire on internal control relating to goods movement (stock traceability) and goods cost measurement, which the statutory auditor may possibly use in this second phase.

Finally it should be reiterated in this context that, depending on the circumstances and in order to issue an unqualified opinion, the statutory auditor can also rely on an expert to assist them in the stock control (see ISA 620, '*Using the work of an auditor's expert*'), including on:

- the attendance at and control of physical inventory counting;
- the assessment of the stock market value (net realisable value), in order to assess the need for potential impairment, in accordance with Article 69, § 1 of the Royal Decree of 30 January 2001.

Phase 3: Response to assessed risks and obtaining audit evidence

1. General ISA principles

The statutory auditor's objective in this third phase is to perform all audit procedures planned by the statutory auditor in the second phase (assessment of controls and substantive procedures) that provide reasonable assurance about whether the financial statements are free from material misstatement.

According to ISA 320 ('Materiality in planning and performing an audit'), misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. This materiality has always to be taken into consideration by the statutory auditor when planning and performing the audit.

According to ISA 450 ('Evaluation of misstatements identified during the audit'), the statutory auditor has to assess the effect of identified misstatements on further audit procedures and the effect of uncorrected misstatements, if any, on the financial statements.

2. Considerations specific to the diamond sector

The statutory auditor shall, on the basis of their professional judgment and professional skepticism, particularly with regard to stocks and the goods movement, perform a number of substantive procedures and tests of controls according to the risk analysis. These controls may include the following procedures:

- testing the market prices of the goods in stock reported by the board of directors, using techniques such as end control, aging analysis, general price lists and recourse to an external expert;
- checking the stock system with a view to determining a proper processing of the goods movement in carats;
- sending external confirmations on sent and received consignments;
- testing procedures for physical inventory counting by attendance at inventory counting and audit sampling. The statutory auditor can thereby use an external expert, if they deem it necessary to issue an unqualified opinion.

Phase 4: Summary of the engagement and forming an opinion

1. *General ISA principles*

The statutory auditor's objective in this fourth phase is to obtain a summary of the findings and conclusions of the work of the statutory auditor on the basis of the information obtained and in particular the results of the tests of controls and substantive procedures.

According to the ISAs, the report on the financial statements shall include an opinion paragraph. There are two types of opinions: an unmodified opinion (unqualified opinion) and a modified opinion. The latter may refer to a qualified opinion, an adverse opinion or a disclaimer of opinion.

A. *Unmodified opinion*

In accordance with paragraph 35 of ISA 700 ('*Forming an opinion and reporting on financial statements*'), an unmodified opinion (unqualified opinion, also called clean opinion) should be expressed when the statutory auditor has obtained sufficient appropriate audit evidence that the financial statements are free from material misstatement.

B. *Modified opinion*

As clarified in ISA 705 ('*Modifications to the opinion in the independent auditor's report*'), the statutory auditor's opinion shall be modified, on the one hand, if the financial statements are materially misstated and, on the other hand, if the statutory auditor is unable to obtain sufficient appropriate audit evidence that the financial statements are free from material misstatement.

Furthermore, the statutory auditor will exercise their professional judgment about the materiality and the pervasiveness of the (possible) effects of the matter giving rise to the modification.

This can be represented schematically as follows:

Nature of matter giving rise to the modification	*Statutory auditor's judgment about the pervasiveness of the effects or possible effects on the financial statements*	
	Material but not pervasive	Material and pervasive
Financial statements are materially misstated	Qualified opinion (a)	Adverse opinion (b)
Inability to obtain sufficient appropriate audit evidence	Qualified opinion (a)	Disclaimer of opinion (c)

Pervasive is a term used, in the context of misstatements, to describe the effects on the financial statements of misstatements or the possible effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence.

Pervasive effects on the financial statements are those that, in the statutory auditor's judgment:

- are not confined to specific elements, accounts or items of the financial statements;
- if so confined, represent or could represent a substantial proportion of the financial statements; or
- in relation to disclosures, are fundamental to users' understanding of the financial statements.

a) *Qualified opinion*

It is inherent to the qualified opinion that the (possible) effect of the matter giving rise to the modification of the opinion by the statutory auditor is deemed to be material but not pervasive to the financial statements. This can occur either when the financial statements are materially misstated or when the statutory auditor is unable to obtain sufficient appropriate audit evidence, for example because of a material scope limitation, in order to conclude that the financial statements are free from material misstatement.

b) *Adverse opinion*

It is inherent to the adverse opinion that the effect of the misstatement on the financial statements is deemed to be both material and pervasive to those financial statements. This means that the expression of a qualified opinion by the statutory auditor is deemed to be insufficient in the circumstances of the audit engagement.

c) *Disclaimer of opinion*

The statutory auditor disclaims an opinion when they are unable to obtain sufficient appropriate audit evidence in the circumstances (e.g. because of a scope limitation) and when this situation is deemed to be both material and pervasive to the financial statements.

A scope limitation may result from the fact that the statutory auditor does not obtain access to the necessary information or to the controls or otherwise obtains insufficient information from the board of directors or company officials, so that the statutory auditor is unable to obtain sufficient audit evidence to form an opinion on the financial statements. They will normally disclaim an opinion.

In such a case, the statutory auditor will have to assess whether they should not resign from their mandate (see Art. 135 of the Belgian Companies Code).

2. *Considerations specific to the diamond sector*

The following matters may give rise to the modification of the statutory auditor's opinion:

- the controls related to the stock records contain significant deficiencies regarding the traceability of the goods flow, which cannot be dealt with by substantive testing;
- the statutory auditor, despite their request, could not rely on an expert for the attendance at and control of physical inventory counting and/or the physical inventory counting procedures were insufficient to provide adequate assurance on the existence of the stocks;
- the statutory auditor has not obtained adequate assurance (through expert or alternatively) on the market value of the goods in stock in order to assess the need for potential impairment, in accordance with Article 69, § 1 of the Royal Decree of 30 January 2001;
- provided that the controls related to the stock records do not contain or contain clearly insufficient cost accounting data in order to enable the company to measure its stock at purchase price, in accordance with Article 69, § 1 of the Royal Decree of 30 January 2001.

The statutory auditor has to decide whether the matter is material and requires to express a qualified opinion or should be considered as pervasive to the financial statements and requires to express an adverse opinion or a disclaimer of opinion.

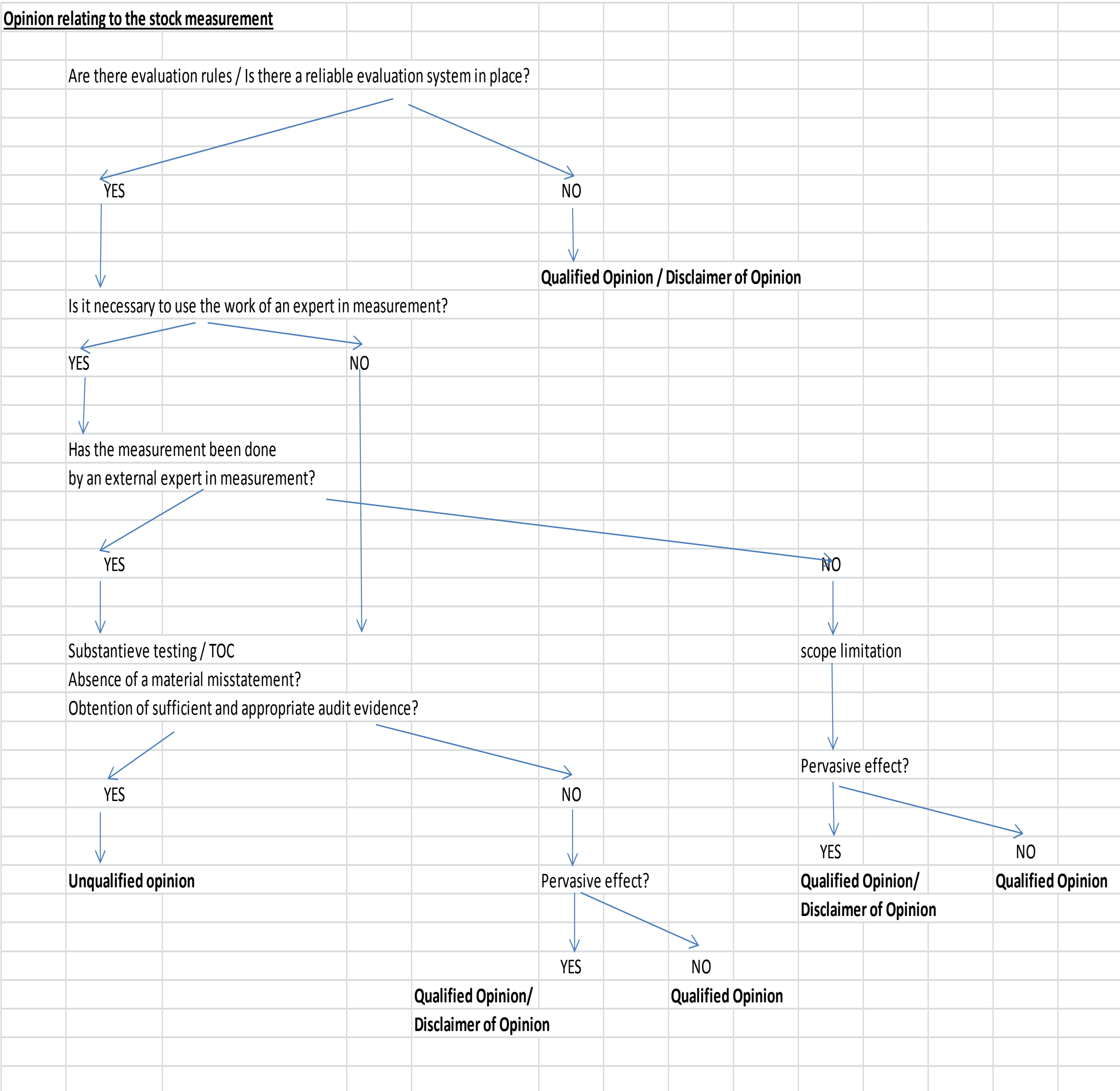
*   *   *

Appendix 1: Schematic representation of the possible effect relating to the stock valuation on the statutory auditor's judgment

This representation is based on the fact that the statutory auditor should exercise their professional judgment at every step.

This schematic representation is only intended to help the statutory auditor to exercise their professional judgment and is in no way binding.

For this business risks the applicable type of opinion regarding the business risk should be considered in order to express an opinion on the true and fair view of the financial statements as a whole.



Appendix 2: Example of checklist on specific audit phases

Inventory cycle: controls over goods movement (R, Po and Pr).	The questions listed below are guideline questions in assessing the controls at the assertion level for the inventory cycle. The entity's inventory management system should provide traceability of all goods, (no individual track and traceability ('single stone'-level)), from purchase to sale (including processes such as sorting, consignment, manufacturing, etc.) and adequate separation between goods owned by the company and goods received in consignment. • Does the company dispose of an inventory processing system, that provides a reliable audit trail for the goods movement from purchase to sale? • Is the system a manual system, an excel based system, an externally acquired software or in-house developed software? • Does the company dispose of user manuals, system descriptions, program documentation in order to ensure business continuity and effective use of the system? • Is there adequate segregation of functions between authorization, custody, recording and control functions? • Is a reconciliation performed between the carats movement of the accounting records and the goods movement of the inventory processing system? • How are transactions entered in the system? Is every transaction entry (purchase, sale, consignment, return shipments, polishing, sorting, etc.) supported by transaction details in the form of invoices, production reports, shipping documents, etc.? • Does the system provide an adequate audit trail, enabling traceability of all goods from purchase to sale (in examining the traceability, every auditor shall decide how to organise this at best; this will depend on the size and the activity of the company)? Does

	the system provide a tracking and evaluation of inventory returns (to suppliers or from clients) and linked to the initial diamond order? • Does the system provide adequate distinction between goods received in consignment and goods purchased? • In case certificates have been obtained for polished diamonds, does the inventory system contain reference to these certificates? • Does the system provide reliable inventory reports at any time? Do these inventory reports provide sufficient detail (including location of inventory) in order to enable management or staff to match the physical inventory with the inventory list? • Does management organize regular inventory counts, comparing physical inventory with stock reports? Are differences adequately analyzed and monitored? • Are the goods adequately safeguarded? Is there a vault? Are the offices equipped with cameras? Is the entrance of the company safeguarded with a lock gate? Is the building entrance safeguarded (identity cards control, access controls, etc.)? • Are the goods in custody adequately insured? Is there adequate insurance of the goods shipped to clients or consignees?