More attention for fraud risks!

Results of the review of fraud risk analysis by audit firms

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01 Review and key findings

In May 2022, the AFM published the position paper 'How audit firms deal with fraud and fraud risks at audited companies'.[1] In this position paper, we announced that the issue of fraud will be structurally on our agenda in the coming years. This thematic review of the quality of fraud risk analysis is the first in a series of reviews performed in this context.

Fraud is a wide-ranging social issue

Fraud disrupts economic traffic between parties and undermines confidence in the integrity of the financial system. In addition, fraud can cause broader destabilising market effects. Such major fraud cases are infrequent, but their impact is considerable. Therefore, nationally and internationally, sustained social and political attention is paid to this problem and specifically to the role of the statutory auditor.

The auditor has an important role in detecting fraud

Audited companies are primarily responsible for preventing and addressing fraud. At the same time, the timely detection and follow-up of fraud and fraud risks by the statutory auditor in the statutory audit can sometimes prevent significant damage to the company's stakeholders. Detecting and monitoring fraud and fraud risks in the statutory audit is therefore an important responsibility for the statutory auditor.

Purpose of the review: what is the quality of the auditor's fraud risk analysis?

The purpose of this review is to obtain a clear picture of the quality of the fraud risk analysis performed by auditors for the statutory audits. We aim to hold up a mirror to the sector and present examples of good practices that we have observed. We assessed a total of 32 statutory audits for the 2021 financial year at 13 audit firms. In this respect, the AFM did not assess whether the statutory auditor obtained sufficient and appropriate audit evidence in the statutory audit.

Both Public Interest Entities (PIEs) and regular licence holders investigated

At three selected PIE audit firms, four audits were selected, of which two PIE audits (including three housing associations, one bank and two listed companies). From the 10 regular audit firms, 2 statutory audits were selected from each audit firm. We selected statutory audits that did and did not involve a fraud expert. In order to obtain as broad a picture as possible, we also selected both high and low risk statutory audits, according to the audit firm's risk assessment. We also requested and analysed data from both PIE and regular audit firms, to support the outcome of the qualitative review.

Why is a proper fraud risk analysis by the auditor so important?

The proper assessment of the risks of material misstatement, whether caused by fraud or error, is one of the most important pillars underlying a proper statutory audit. After all, the Standards prescribe that the auditor must obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. It is also at the heart of the accounting profession, because of the importance that users of financial statements attach to reliable information and the decisions taken based thereof.

The identification of the fraud risks is decisive for the rest of the audit

An audit of the financial statements is risk-driven. Based on the risk assessment, specific audit procedures are performed. If the statutory auditor overlooks relevant fraud risks, there is an increased likelihood that too little or not the right procedures will be performed. As a result, a material misstatement due to fraud may not be discovered.

1 Simultaneously with the AFM position paper, the Royal Netherlands Institute of Chartered Accountants (NBA) published similar observations in June 2022 by means of the report 'Exploratory analysis of causes of fraud: Fraud requires a more critical basic attitude'.

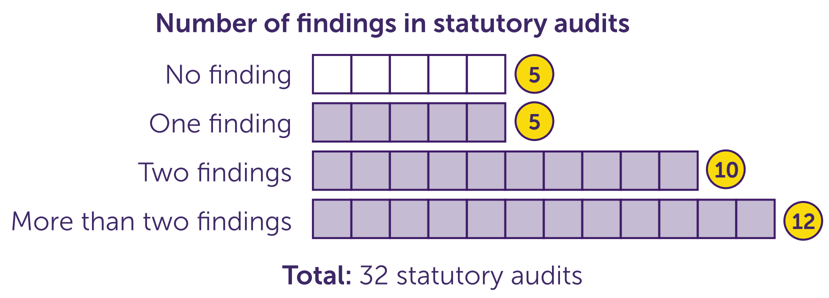
Results of the review call for a more rigorous fraud risk analysis

- ✓ **We see that, in the fraud risk analysis, in all inspected statutory audits, the formal and other mandatory steps have been followed and auditors pay attention to fraud.** In all statutory audits, a team discussion has taken place, inquiries about fraud are performed, and fraud risk factors and one or more fraud risks have been identified. Auditors state that steps have been taken, and fraud experts are deployed more than in the past, for example.
- ✓ **In all 32 fraud risk analyses, the statutory auditors identified at least the mandatory risk of management override of controls as fraud risk.** Due to the unpredictability of the way in which management can override internal controls, this constitutes a mandatory presumed fraud risk.
- ✓ **In many cases, one or more other fraud risks were also identified.** These were usually client-specific and sector-specific fraud risks. In this context, it is important to substantiate how and where the risk can occur, who is or may be involved and what the likelihood and impact of the risk is.

- ✗ **Nevertheless, we see that the quality of the steps taken needs to be improved in the majority of the audits examined.** Most fraud risk analyses are inadequate in various areas and must be performed more rigorously. In this case, more rigorously means with more professional scepticism and with greater depth. We also see good examples of elements of the fraud risk analyses, and these are included in so-called good practices.
- ✗ **Of the 32 statutory audits, 27 have one or more findings (Figure 1).** There is a finding if an NV COS Standard (Dutch Auditing Standards, COS) is not met. Our assessment was specifically based on the standards set out in COS 240/COS 250[2] (responsibilities of the auditor in the case of fraud/laws and regulations) and COS 315 (identifying and assessing risks of material misstatement). The findings are included in a specific report for each audit firm.

- ✗ **Despite the fact that we see auditors paying increasing attention to the subject of fraud, there are still steps to be taken.** We too often see auditors reasoning why there are no fraud or other risks, instead of reviewing and substantiating how fraud risks can occur. Professional scepticism is constantly needed, especially for work that involves fraud risks. We observed no findings in just five statutory audits. Of the 32 statutory audits, 27 contain one or more findings, and 22 of the 32 statutory audits contain 2 or more findings (Figure 1).

Figure 1. Number of findings in 32 fraud risk analyses examined



2 Fraud characteristics such as intent, deception and unlawfully obtained gains almost always play a role in violations of the law such as corruption (bribery), money laundering and cartel formation.

Structure of the report follows the auditor's procedure when dealing with fraud risks

The statutory auditor holds a team meeting, makes an initial comprehensive assessment of the risks prior to the planning and execution of a statutory audit and requests information from the company being audited. Fraud risk factors are subsequently identified and evaluated. The main fraud risks are then identified so they can be included in the audit. This report follows this structure. The concept of fraud risk analysis is explained in more detail in the visual below (Figure 2).

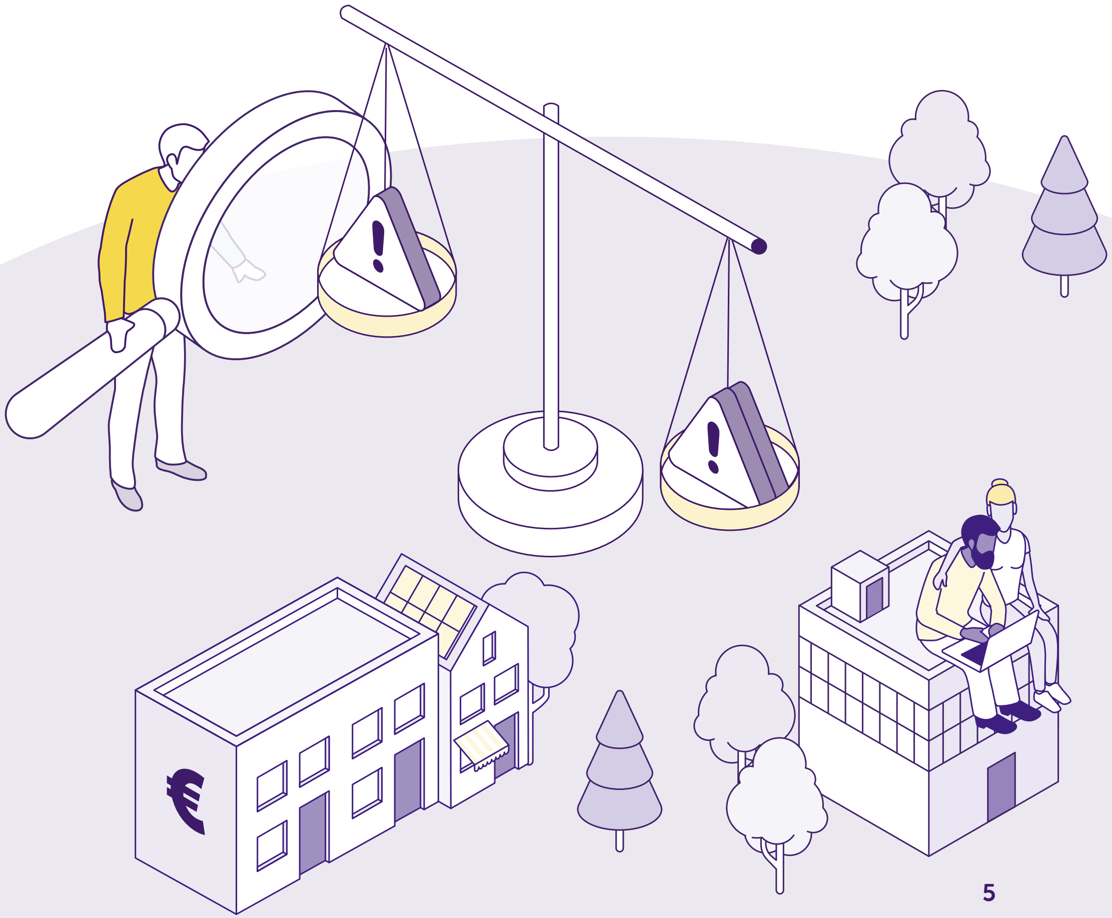


Figure 2. Auditor's fraud risk analysis procedure

Auditors carry out work in order to recognise fraud risks.

Planning phase

Fraud risk analysis

Team meetings
Discussions about fraud between members of the audit team.

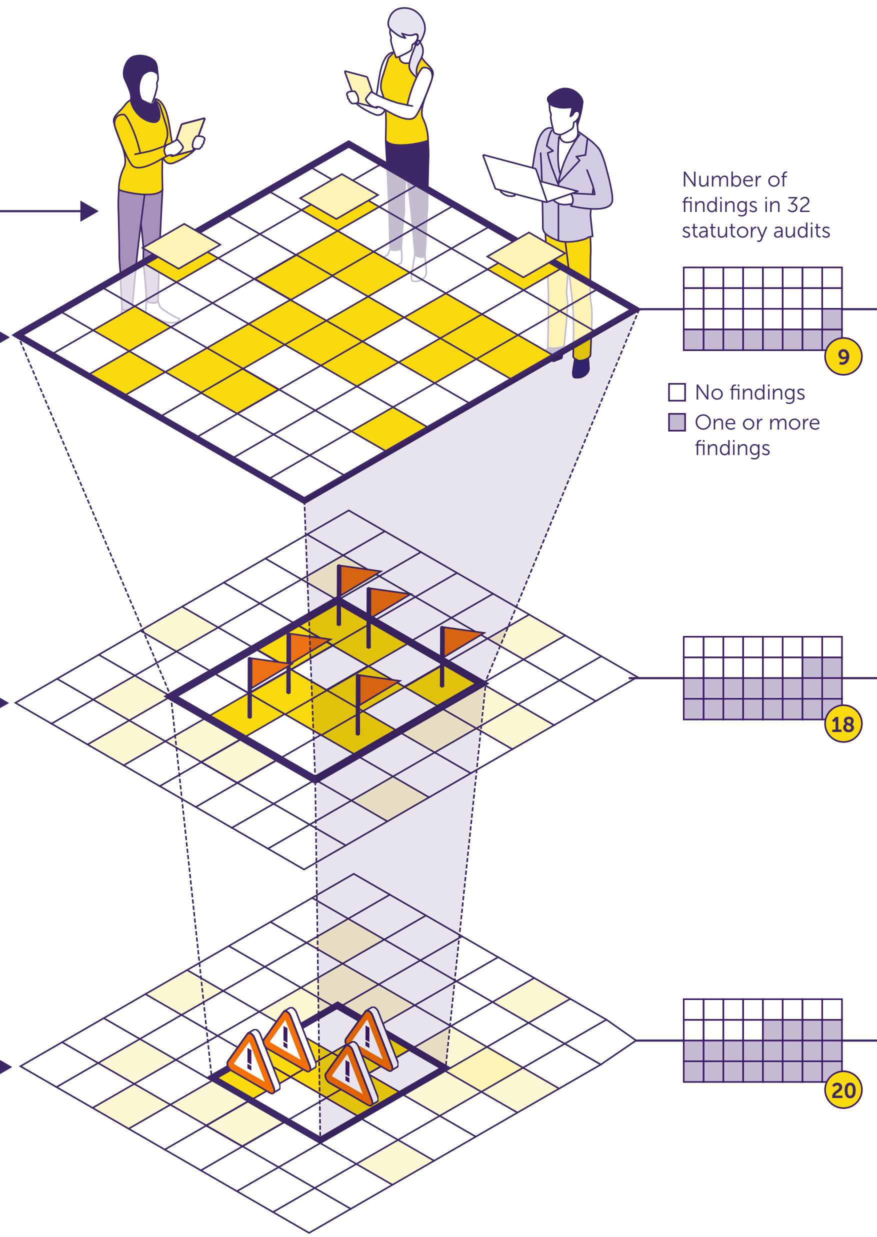
Inquiry
Inquiry from management, the Supervisory Board and others.

Fraud risks factors
Identifying and evaluating fraud risk factors.

Fraud risks
Identifying and assessing fraud risks.

Execution

Reporting



What important points of attention for the statutory auditor result from this review?

Chapter 2.1
Team meetings and inquiry

- Continue to exercise professional scepticism when inquiring.
- Pay sufficient attention to the dialogue with management, the supervisory body, and key personnel about fraud.

Chapter 2.2
Evaluating fraud risk factors

- Recognise sufficient (sector-specific) fraud risk factors.
- Substantiate why fraud risk factors may or may not lead to a fraud risk.
- Include not only quantitative but also qualitative aspects in the evaluation of fraud risk factors.

Chapter 2.3
Recognising fraud risks

- Recognise sufficient (client-specific) fraud risks.
- Remain critical when assessing assumed fraud risks in revenue recognition.
- Specify the fraud risk that management may override internal controls.

02 **Results of the review**

2.1 Team meetings and inquiries

The role of the statutory auditor

At the beginning of the audit, the team discussion about fraud and inquiries are important steps for the statutory auditor to recognise (identify) fraud risks and fraud risk factors. The statutory auditor asks management for information about: management's own assessment of whether the financial statements possibly contain a material misstatement due to fraud;

- management's procedures in order to identify and respond to the risks of fraud in the entity;
- the information that management may have communicated to those charged with governance about its processes to identify and respond to the risks of fraud in the entity;
- the information that management may have communicated to its employees about its vision of business practices and ethical conduct.

The auditor asks different persons within the company whether they are aware of actual, suspected or alleged fraud. So not only management, but also the persons in charge of governance (such as the supervisory board), internal auditors and other relevant persons within the company.

Management is often in the best position to commit fraud. The statutory auditor therefore evaluates the information obtained with professional scepticism, and it may be necessary to corroborate the answers provided by management with other information.

The statutory auditor acquires insight into how the persons in charge of governance supervise management and its processes to identify and respond to the risks of fraud in the entity. It is important to review the competence and integrity of management and to inquire what the company's susceptibility is to, among other things, management fraud.

What are the important review results?

- – A team discussion has taken place in every statutory audit, but the depth of and professional scepticism in the discussion needs to be improved.

- ✓ In every fraud risk analysis inquiry about fraud or suspicions of fraud were performed.
- ✓ Statutory auditors assist companies in identifying fraud risks.

- ✗ Statutory auditors must inquire about fraud with greater professional scepticism.
- ✗ Statutory auditors should devote sufficient time and attention to the dialogue about fraud with management, the supervisory body and others within a company.

– **A team discussion has taken place in every statutory audit, but the depth of and professional scepticism in the discussion needs to be improved.** The discussion between the members of the audit team, focusing on how and where the financial statements may be susceptible to a material misstatement due to fraud, has taken place in all statutory audits. However, we have observed that not all relevant aspects are discussed in sufficient depth. It is often not sufficiently clear which fraud risk factors apply and how the factors discussed affect the elements of the fraud triangle. The conclusion of whether the fraud risk factors actually constitute a fraud risk is also insufficiently substantiated. Because the team meeting did take place and the explanation by the statutory auditors, we only have a single finding on this topic.

- ✓ **In every fraud risk analysis inquiry about fraud or suspicions of fraud were performed.** In all 32 fraud risk analyses, the statutory auditors made inquiries on cases or suspicions of fraud. The subject of fraud is often discussed as part of the audit plan, the management letter and/or the audit report. It is important that the subject of fraud is discussed in sufficient depth in those cases (see good practice 1).
- ✓ **Statutory auditors assist companies in identifying fraud risks.** Companies themselves are responsible for adequate fraud risk management. Auditors regularly find that internal fraud risk analyses are lacking, and they support management with questionnaires to help them make their own fraud risk analysis and identify fraud risks (see good practice 2).

- ✗ **Statutory auditors must inquire about fraud with greater professional scepticism.** Inquiry often focuses on whether cases of fraud have occurred, rather than on identifying and managing fraud risks and responding to them. The subject of fraud is often only discussed with members of management and the supervisory board as part of the audit plan, the management letter and/or the audit report. This can lead to insufficient attention being paid to the subject of fraud and insufficient professional scepticism. It should be noted here that a comprehensive interview report and/or minutes, which show what the depth of the interviews was and whether professional scepticism was exercised, are regularly lacking.
- ✗ **Statutory auditors should devote sufficient time and attention to the dialogue on fraud with management, the supervisory body and others within a company.** Inquiry does not always take place with the right people. We see examples in which the statutory auditor does not, as required, talk about fraud with management, but only or especially with the financial director and the layer below (controller, finance manager). In addition to the company's management, the auditor must also determine whether there is other key personnel who need to be asked for information, such as a purchasing or sales director who is evaluated based on the results achieved.

One-third of the audits examined did not identify who the relevant management and any other personnel (e.g. divisional director or branch management) was in order to obtain information from for the fraud risk analysis.

Good practices

Good practice 1 – Inquiry – exit interviews
During the financial year, the CFO and two Supervisory Board members left the company. The statutory auditor conducted exit interviews with them to determine the impact on the statutory audit. This may also provide new insights for the fraud risk analysis.

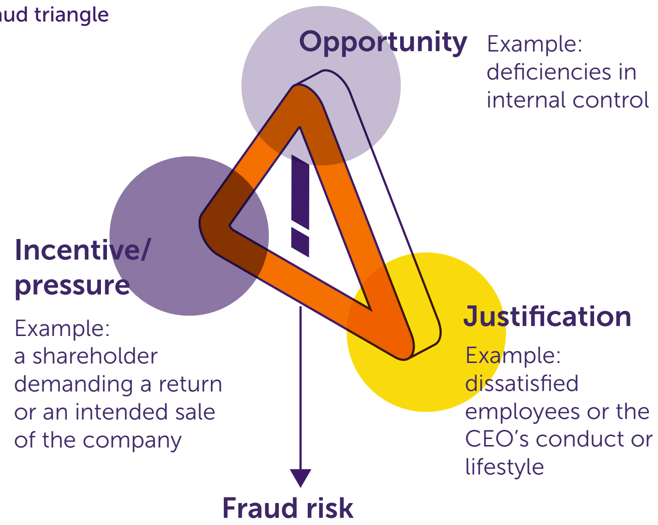
Good practice 2 – inquiry – questionnaire
An audit firm experiences that management and bodies responsible for the governance of audit clients themselves do not always pay sufficient attention to fraud risks and do not have their own formalised or other fraud risk analysis. The identification and management of fraud risks by these companies is often informal. The audit firm uses videos to draw attention to fraud risks. The audit firm has also developed a tool (questionnaire) for audit clients to structurally identify fraud risks. This allows the statutory auditor to easily conduct the discussion with management and stimulates discussion about fraud risks with sufficient depth.

2.2 Identifying and evaluating fraud risk factors

The role of the statutory auditor

In the planning phase of an audit, an auditor carries out risk assessment procedures, such as inquiry, examining the audit client’s environment and reviewing meeting minutes and important correspondence. The auditor also carries out an initial analytical review and examines internal procedures, such as a whistleblower scheme. The auditor evaluates whether the information obtained from these procedures indicate the existence of one or more fraud risk factors. These fraud risk factors do not automatically point to the existence of fraud but often do occur in cases of actual fraud. For the auditor, they are therefore an indication of a risk of material misstatement due to fraud. The auditor specifically examines the fraud triangle (Figure 3) for fraud risk factors that point to:

Figure 3. Fraud triangle



The statutory auditor subsequently evaluates and substantiates why fraud risk factors may or may not lead to a fraud risk.

What are the important review results?

- ✓ Statutory auditors use objective sources, such as the CPI index, to identify and evaluate fraud risk factors.
- ✓ We see good examples with the involvement of fraud experts.
- ✓ Fraud risk factors are identified in all audits.

- ✗ In 18 of the 32 statutory audits, one or more findings were observed in the identification and evaluation of fraud risk factors.
- ✗ Statutory auditors must substantiate why fraud risk factors may or may not lead to a fraud risk.
- ✗ Statutory auditors should consider not only quantitative aspects but also qualitative aspects when evaluating fraud risk factors.

- ✓ **Statutory auditors use objective sources, such as the CPI index, to identify and evaluate fraud risk factors.** In audits of companies with international activities, we see the use of the CPI index[3] on the sales and purchasing side. This CPI index can help identify fraud risk factors (and/or fraud risks), such as transactions with high-risk countries.
- ✓ **We see good examples with the involvement of fraud experts.** From the data requested, it appears that at market level, a fraud expert was involved in about 5% of the statutory audits. The involvement of a fraud expert in the discussion between the members of the audit team increases the attention to fraud risks and provides a fresh perspective from outside the audit team. The qualitative review gives us the impression that this deployment has contributed positively to the fraud risk analysis (see good practice 3). The data received show that PIE audit firms use fraud experts more often than regular licence holders.
- ✓ **Fraud risk factors are identified in all audits.** Most statutory auditors are familiar with the concept of fraud risk factors that are evaluated and potentially lead to a fraud risk. In all statutory audits, the statutory auditor identified one or more fraud risk factors.

3 Corruption Perceptions Index: 2022 Corruption Perceptions Index: Explore the... - Transparency.org.

- **In 18 of the 32 statutory audits, one or more findings were observed in the identification and evaluation of fraud risk factors.** An example of this is that evident fraud risk factors were not recognised and/or insufficiently evaluated. This includes sector-specific fraud risk factors in purchasing and tendering, selling real estate or land and anti-money laundering at financial service providers. Examples of fraud risk factors here include the involvement of business intermediaries for which there does not seem to be a clear business reason or a high turnover among senior management, legal advisers or those charged with governance. Other factors may include management failing to rectify known significant deficiencies in internal control in a timely manner, as well as large amounts of cash in hand or large cash flows.
- **Statutory auditors must substantiate why fraud risk factors may or may not lead to a specific fraud risk.** This substantiation must be corroborated, for example, by carrying out risk assessment procedures (see good practice 4). The review shows that auditors do not sufficiently substantiate why fraud risk factors do or do not lead to a specific fraud risk. When evaluating fraud risk factors, some statutory audits erroneously include (the positive effects) of internal controls. Based on the internal controls, fraud risk factors are scaled down, and no fraud risks are subsequently identified. The auditing standards require the auditor to evaluate fraud risk factors before taking the internal controls into account.
- **Statutory auditors should consider not only quantitative aspects but also qualitative aspects when evaluating fraud risk factors.** In some statutory audits, fraud risk factors were not evaluated or not all fraud risk factors were evaluated. Instead, it was argued why there is no material or other fraud risk. The considerations and justification of why fraud risk factors may or may not lead to a fraud risk are lacking or inadequate. It should be noted that the argument of a high 'quantitative materiality' is often used. Qualitative considerations and substantiation, for example about reputational damage, being excluded from tenders and/or penalties in the case of kickback payments (corruption risk), are lacking.

Good practices

Good practice 3 – Value-added involvement of fraud experts

The statutory audit of a wholesaler has an increased client and engagement risk. This includes trade with high-risk countries and ongoing criminal investigations into possible non-compliance with laws and regulations.
For the statutory auditor, this is a reason to pay attention to the risk of material misstatement due to fraud with increased alertness and depth. The statutory auditor therefore engaged an external fraud expert in this audit. The fraud expert challenged the audit team's fraud risk analysis and discussed observations with the audit team. The involvement of the fraud expert contributed positively to the fraud risk analysis and led to the identification of new and other fraud risk factors and fraud risks for the audit of this company, such as the risk that a debtor payment takes place from another (unknown) bank account number (third-party payments).

Good practice 4 – Evaluating fraud risk factors and risk assessment procedures
The statutory auditor identified the 'conflict of interest' fraud risk factor for transactions with related parties. The standard (threshold) used to assess transactions (from a fraud point of view) or when transactions are qualitatively or otherwise classified as 'special' was substantiated. Possible special transactions were examined by the auditor and substantiated with source documentation. The statutory auditor also assessed the other (secondary) positions of management. The statutory auditor integrally determined which other positions a member of management based on public information. The statutory auditor determined whether the other positions constituted a possible fraud risk by taking account of the rationale and scope of the transactions with these parties. As part of the fraud risk analysis, the statutory auditor extensively evaluated all findings relating to internal controls (fraud risk factor: gaps in internal control) and assessed whether these findings could lead to a material fraud risk. For each finding, the statutory auditor performed an analysis based on the elements of the fraud triangle (opportunity, pressure, rationalisation). The statutory auditor subsequently assessed the likelihood and impact of possible 'misappropriation of assets' and/or 'fraudulent financial reporting'.

2.3 Identifying and assessing fraud risks

The role of the statutory auditor
The statutory auditor has the responsibility to exercise professional scepticism throughout the audit and to take into account the possibility that management may override internal controls. The statutory auditor should also take into account the fact that audit procedures that are effective in detecting errors may not be effective in detecting fraud.

In short, the statutory auditor must assess risks of material misstatement at the level of the financial statements and the items in the financial statements. This assessment determines the scope and depth of the procedures carried out when performing the statutory audit. It is assumed here that two fraud risks always require attention: (1) management override of controls (mandatory) and (2) fraud risks relating to revenue recognition (presumed).

Due to the unpredictability of the way in which management can override controls, this constitutes a mandatory presumed risk of material misstatement due to fraud.

The statutory auditor must also presume that there are fraud risks in revenue recognition. Only in exceptional cases this does not apply, and the statutory auditor must then also document the reasons for this.

What are the important review results?
- ✓ Auditors recognise the mandatory fraud risk.
- ✓ Auditors include the internal fraud risk analysis of the audit client.
- ✓ We have seen examples of specific fraud risks.

- ✗ In 20 of the 32 examined statutory audits, one or more findings were observed in the identification and assessment of fraud risks.
- ✗ In a relatively large number of statutory audits, the presumed fraud risk in revenue recognition was rebutted too easy.
- ✗ The ever-present risk of management override of internal controls is often not specified.

- ✓ **Auditors identify the mandatory fraud risk.** At least one fraud risk was identified in each statutory audit, i.e. the mandatory presumed risk of management override of controls. The examined statutory audits identified an average of three fraud risks (ranging from only one to seven fraud risks per statutory audit).
- ✓ **Auditors include the internal fraud risk analysis of the audit client.** If the audit client has its own internal fraud risk analysis, statutory auditors make use of this by including it in their own fraud risk analysis.

- ✓ **We have seen examples of specific fraud risks.** In a number of statutory audits, client-specific fraud risks were identified by the statutory auditor, in addition to the mandatory fraud risk of management override of controls and the presumed fraud risk in revenue recognition. The statutory auditor specifically substantiated how and where the risk can occur, who is or may be involved and what the likelihood and impact of the risk is (see good practices 5 and 6). In general, we see that fraud risks need to be made more – or much more – specific. A specifically formulated fraud risk ensures the adequate planning and performance of the procedures by the auditor. The effectiveness of the work to be performed benefits from the formulation of the risk in the most consistent manner possible. This is also important because statutory auditors do not perform audits alone. It must also be clear to team members what risks are involved in the work they perform. Professional scepticism is constantly needed, especially for work that involves fraud risks.

- ✗ **In 20 of the 32 examined statutory audits, one or more findings were observed in the identification and assessment of fraud risks.** An example of this is that evident fraud risks were not recognised. Meanwhile, these fraud risks have been identified by the audit client and/or are apparent from public information, such as a detected fraud at a similar organisation. Examples of this are: no fraud risks on the purchasing side when awarding contracts to 'friendly' parties and kick-backs, when selling real estate during the year by means of ABC transactions, no fraud risks with large NOW/TVL (COVID related) grants and the risk of bribery (bribes) or the payment of bribes (corruption) for certain services.
  Internal control is erroneously included in the assessment of fraud risks in a quarter of the statutory audits examined. In assessing the risk of fraud, internal control of the audit client and the positive effects thereof are erroneously included. The auditing standards stipulate that the auditor should not take this into account in the risk assessment. When performing risk assessment procedures aimed at identifying fraud risks, the auditor should gain insight into internal control with the aim of verifying whether there are deficiencies in internal control that indicate fraud risk factors and fraud risks, and not the other way around.

- ✗ **In a relatively large number of statutory audits, the presumed fraud risk in revenue recognition was rebutted too easy.** The presumed risk of fraud in revenue recognition has been rebutted in 7 of the 32 statutory audits examined. It should be noted in this respect that five of the seven statutory audits concerned the audit of a PIE company (including all three selected housing associations). The bar for rebutting the presumed risk of fraud in revenue recognition is high, and it can therefore not be easy to rebut this. The presumed risk of fraud is always present, unless in very specific circumstances. Our review gives the impression that within certain audit firms and sectors rebutting is the norm.[4] We will discuss this with the sector in more detail.[5]
- ✗ **The ever-present risk of management override of internal controls is often not specified.** As a result, no direction is given to the audit work to be performed, and possible risks of material misstatement due to fraud are not discovered.

4 The NBA report: ANALYSIS OF REPORTING ON FRAUD IN PIE AUDITOR'S REPORTS IN 2021 indicates that the risk of fraud with regard to revenue recognition was not recognised in approximately 60% of all auditor's reports (44 times): 2022096_nba_opmaak-onderzoek-beursfondsen-mbt-fraudeparagraaf.pdf.
5 See also the following article in this context: The assumption that there are fraud risks in the revenue recognition (accountant.nl).

Rebuttal of the presumption that there are fraud risks in revenue recognition

In the review, it should be noted that the presumption that there are fraud risks in the revenue recognition is relatively often presumed as not applicable. The bar for rebutting this risk of fraud is high because:

i. the statutory auditor must presume that there are fraud risks in the revenue recognition and must assess which types of revenue, revenue transactions or assertions give rise to these risks;
ii. there is often a risk of deliberate shifting and fictional revenue recognition for each type of income (COS 240 A29);
iii. there are usually one or more fraud risk factors relating to revenue recognition, which in principle means that it is inappropriate to rebut the presumption (in its entirety) for each type of income;
iv. COS 240 A31 contains the example of 'one type of simple revenue-generating transaction, such as the rental income of one particular property'.

Good practices

Good practice 5 – Identifying and assessing fraud risks

The statutory auditor audits a construction company that does a lot of work for government parties. The statutory auditor recognises/establishes that there is an increased risk of corruption. The statutory auditor analyses (with the help of a fraud expert) both the purchase and the sale transactions that the construction company performs. This is done based on the geographical distribution of the construction activities, including the CPI index, the nature of the work carried out by the construction company, the context in which the activities take place (much use of public procurement) and the internal control of the contracting parties (such as declarations of performance). The statutory auditor substantiates this with underlying documents. The statutory auditor also discusses this risk in detail with the audit client's CEO.
Furthermore, the statutory auditor sees that there has been a fraud case in the media involving a government party. The statutory auditor establishes that the fraud case concerns transactions similar to those performed by the audit client with the public party and records its considerations (including reference to the risk assessment procedures).

Good practice 6 – Identifying and assessing fraud risks

The statutory auditor has drawn up an extensive memorandum for the fraud risk in revenue recognition. In the memorandum, the statutory auditor described in detail where the statutory auditor recognises fraud risks per revenue stream and per assertion. The statutory auditor has analysed in detail whether the findings in the internal control lead to fraud risks. It appears from the Engagement Quality Control Review (EQCR) work programme that the EQCR raised several comments relating to the fraud risk analysis that have been answered/followed up by the audit team. This contributes positively to the professional scepticism of the fraud risk analysis performed.

03 **Points of attention for the sector**

In addition to the results of the review in Chapter 2, we see the following points for attention:

Every statutory auditor is aware that professional scepticism in order to detect fraud is important, but in practice, it can be applied much better
We call on auditors to assume and exercise professional scepticism in the fraud risk analysis. This attitude should be characterised, among other things, by an investigative attitude, being alert to circumstances that may indicate any deviations that result from errors or fraud and a critical evaluation of audit evidence. During our review, we saw examples in which the statutory auditor exercised professional scepticism, but this was often not the case. For example, we have come across many examples of so-called motivated reasoning.[6] In specific cases, auditors' reason why there are no fraud or other risks, instead of investigating and substantiating how fraud risks can occur.

Practical tools can, in addition to existing laws and regulations, contribute to the quality of fraud risk analysis by auditors
We call on the NBA and the sector to develop practical tools for the application of COS 240, and we are happy to contribute to this on the basis of this review. The AFM will be discussing this with the sector in the coming period, specifically on the subject of fraud risks in revenue recognition. Auditing Standard 240 addresses the auditor's responsibilities in relation to fraud. The IAASB is currently revising Standard 240 (International Standards on Auditing 240). We note that, while Standard 240 adequately describes the formal and other responsibilities of the auditor[7], practical guidance is often lacking, and audit firms apply their own interpretation.

6 Temptations and dangers of 'motivated reasoning' (accountant.nl).
7 In the position paper, we have taken the position that the current COS 240 also offers sufficient clues for the auditor to properly fulfil their responsibility with respect to fraud. Nevertheless, it is good to provide more guidance in a revised standard.

The results of the review are also useful for audit committees, also to monitor the company's attention to fraud risk management
We call on audit committees to use the results of this review when discussing the audit plan with the statutory auditor, including the client-specific fraud and other risks identified. Specifically, audit committees can talk to the statutory auditor about fraud risk factors, the assessment of the risk of management override of controls and how fraud can occur in revenue recognition. Audit committees play an essential role in ensuring the quality of financial reporting. In addition, audit committees are responsible for overseeing the processes followed by management to identify and respond to the risks of fraud in the entity. They also look at the internal control that management has put in place to mitigate these risks.

Any questions or comments about this publication?

Send an email to: redactie@afm.nl

AFM

The Dutch Authority for the Financial Markets
PO Box 11723 | 1001 GS Amsterdam

Telephone
+31 20 797 2000

www.afm.nl

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