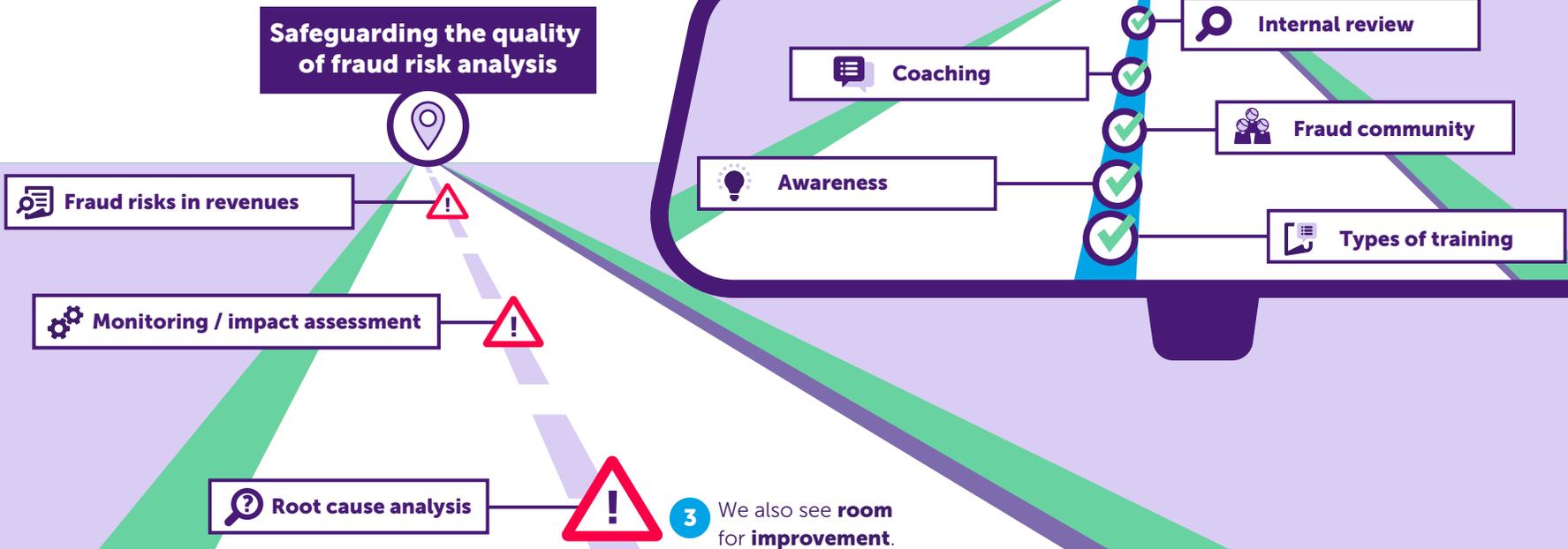


Towards improved fraud risk analysis

In short The AFM reviewed the measures taken to improve the quality of fraud risk analysis in six PIE audit firms. We also assessed the fraud risk analysis in 12 statutory audits. We found that PIE audit firms are making progress towards improved fraud risk analysis. In order to stay on the right track, the root cause analysis needs to be more thorough, particularly with regard to behavioural and cultural aspects. More attention also needs to be paid to monitoring the measures and assessing their impact. The AFM expects audit firms to take their responsibility and will be discussing this with the sector in the period ahead.

1 The AFM examined how **PIE audit firms** had dealt with previous findings and to what extent they had taken **action** to address any **deficiencies**. The quality of the fraud risk analysis was also assessed in 12 statutory audits.

2 We have a **positive** view of the **measures** taken and note that more **attention** is being paid to fraud in the fraud risk analysis.



1. Introduction and key findings

Audited companies are primarily responsible for preventing and addressing fraud. The timely detection and follow-up of fraud(risks) by the auditor in the statutory audit can prevent significant damage to the company's stakeholders. The detection and follow-up of fraud(risks) in the statutory audit is therefore a key responsibility of the auditor. Raising awareness of the possibility of fraud and improving the detection and follow-up of fraud risks is one of the strategic pillars underpinning the supervision of audit firms conducted by the Dutch Authority for the Financial Markets (AFM). The AFM wrote a [position paper](#) on this subject in 2022 and has published two reviews on it in recent years. '[More attention for fraud risks!](#)' and '[Insufficient audit procedures in response to fraud risks](#)'.

Audit firms have a system of quality control that is intended to safeguard the quality of the statutory audit.¹ The fraud risk analysis is an important part of the statutory audit. Conducting risk assessment procedures and identifying and assessing fraud risks is an important step in the audit process, and hence a 'precondition' for the quality of the statutory audit.

The system of quality control must therefore also guarantee the quality of the fraud risk analysis and the audit firm must take appropriate measures to remedy any deficiencies.² The AFM conducted a previous review of the quality of fraud risk analysis (2023). We also conducted a review of the quality of audit procedures for fraud risks (2025). In short, the first review revealed the need for a more rigorous stance in fraud risk analyses. The 2025 review revealed that audit procedures for fraud risk were insufficient

Timeline of reviews and publications on the theme of fraud



¹ EU Directive Article 24a(1)(g).

² EU Directive Article 24a(1)(k).

This report is a follow-up review of the quality control system on the theme of fraud risk analysis conducted in six PIE audit firms.

We examined which elements contribute to a fraud risk analysis of sufficiently high quality, how these audit firms had dealt with previous findings from the 2023 review and to what extent they had taken action to address any deficiencies. The quality of the fraud risk analysis was also assessed in 12 statutory audits.³

The purpose of this review is to determine whether audit firms are on the right track. In other words, the extent to which audit firms have assumed their responsibility and taken appropriate measures to remedy any deficiencies that we detected in our review 'More attention for fraud risks!'.³

The AFM finds that the six PIE audit firms have made progress since the 2023 report; we have a positive view of the measures taken to address deficiencies in the fraud risk analysis at the level of the quality control system. The measures taken by audit firms include the following:

- Internal review conducted based on the report 'More attention for fraud risks!'.
- Awareness and professional scepticism reinforced through training, peer review and gamification.
- Fraud experts more frequently involved and fraud communities established.
- Consultation policy tightened and hot file reviews conducted.
- Coaching carried out during statutory audits to strengthen the quality of fraud risk analysis.
- Guidelines and procedures updated, with attention paid to good examples and pitfalls.

The quality of fraud risk analysis has also improved in the 12 statutory audits we reviewed. Fraud risk factors are being identified and evaluated more frequently, with fraud risks being described more specifically. In most of the statutory audits we reviewed, the auditor substantiated the reasons why fraud risk factors did or did not lead to a fraud risk. The reviewed statutory audits also showed room for improvement. What really needs to improve is depth and professional scepticism when it comes to gaining an understanding of the entity and its environment, particularly during inquiries and team meetings.

The AFM has a predominantly positive view of the steps taken in the reviewed audit firms to improve the quality of fraud risk analysis in statutory audits. The measures introduced may contribute to improved fraud risk analysis, but we note that there is still only limited insight into the actual effectiveness of individual measures. In order to maintain and embed the improvements, audit firms must take further steps in the following areas:

- Conducting thorough root cause analyses; these are conducted to a limited extent, and lacking attention for behavioural and cultural aspects.
- Monitoring measures and assessing their impact; this is not sufficiently developed and assessment tools are often too broad in scope.
- Identifying presumed fraud risk in revenues; this risk is still too often rebutted, despite tighter procedures and consultation obligations.

³ For these statutory audits, the AFM verified whether the form and substance of relevant laws and regulations (NV COS – Dutch Auditing Standards) were sufficiently complied with in the fraud risk analysis in the selected statutory audits. Our assessment was based specifically on the standards set out in NV COS 240, NV COS 250 (responsibilities of the auditor in the case of fraud/laws and regulations) and NV COS 315 (identifying and assessing risks of material misstatement).

The AFM calls on audit firms to continue the actions they have initiated and to ensure that the effectiveness of measures is better monitored, structurally evaluated and adjusted as necessary.

Only in this way can the quality of fraud risk analyses be sustainably ensured. We expect audit firms not only to take appropriate measures but also to evaluate on a structural basis whether these measures are actually addressing the observed deficiencies. This requires targeted evaluations, further expansion of data-driven monitoring and the use of impact assessment. The AFM calls on all audit firms to take note of the results of this review in 2025 and 2026, to reflect on them and (where necessary) to take concrete improvement measures. Conducting a thorough root cause analysis with a focus on behavioural and cultural aspects is crucial in this regard. In 2026, the AFM will conduct a review of PIE audit firms to assess the audit procedures in response to fraud risks.

2. Results of the review of the system of quality control

2.1 The AFM sees progress in the system of quality control on the theme of fraud risk analysis

The AFM examined whether the six PIE audit firms had taken their responsibility and were taking appropriate measures in response to the results of the 'More attention to fraud risks!' report from 2023. Our view of this is positive: we see progress in the measures taken to address deficiencies in the fraud risk analysis at the level of the system of quality control. We describe below the main measures that audit firms have taken and share some examples of good practice.



Measure: internal review of the quality of fraud risk analysis.

Three (of the six) PIE audit firms conducted internal reviews of the quality of fraud risk analysis and took measures in response to the 'More attention for fraud risks!' report. The three PIE audit firms involved in the review had at that time received an audit firm-specific report with findings and recommendations. The other three audit firms that were not included in the 2023 review used the 'More attention for fraud risks!' report as a basis for their measures. These three audit firms conducted internal reviews to a greater or lesser extent. One audit firm focused on auditor's opinions and the rebuttal of the presumed fraud risk in revenue recognition. Another audit firm replicated the AFM's review. The AFM shares details of the associated good practice below.



Good practice: follow-up of external signals based on an internal review of fraud risk analysis

An audit firm that was not included in the 2023 review of fraud risk analysis conducted a review of five statutory audits⁴. This assessment included determining whether there were similar findings and recommendations to those included in the 2023 report.

This is a good practice because – despite not being part of the 2023 review – the audit firm reflected actively on the findings and recommendations of the 'More attention for fraud risks!' report, thereby demonstrating that it takes signals from the sector seriously. The audit firm also took measures to follow up the specific findings and recommendations relevant to it based on the internal review results. This meets the AFM's expectation that even non-participating audit firms can draw lessons from public reports and apply these to their own organisation.

⁴ One PIE client, one housing corporation client, two high-risk clients and one low-risk client.



Measure: raising awareness of fraud risks and strengthening professional scepticism.

- **Audit firms actively use fraud cases to raise awareness of fraud risks and improve the quality of fraud risk analysis.**

These cases, drawn from the media and auditors' own statutory audits, are shared with the practice. This is done through various channels, including short news releases, detailed case descriptions and internal knowledge-sharing platforms. Through these platforms, audit teams receive a selection of relevant cases that they can include in their risk assessment and audit approach. Fraud cases were also shared during training courses and technical meetings. These measures encourage audit teams to think critically, to identify and recognise fraud risk factors and to better substantiate their opinions. The structural sharing of practical examples can contribute to a learning culture and help strengthen the quality of fraud risk analysis.

- **Audit firms developed training programmes to improve professional scepticism and awareness of fraud risks.**

The training programmes were mostly developed at function level and focus on themes such as fraud risk analysis and corruption. These programmes included, for example, contributions from external experts (such as the Fiscal Information and Investigation Service – FIOD) and use e-learnings, virtual classrooms and information mailings. These devoted attention to the results of the AFM's review, the results of the internal review and the results of internal safeguards, such as the hot file review. In addition, peer review meetings and team sessions were organised to discuss issues and lessons learned from statutory audits. Initiatives were also taken to raise awareness of fraud risk factors, focusing specifically on identifying and documenting these factors. These measures can help strengthen professional scepticism and improve the quality of fraud risk analysis.

- **Audit firms experimented with innovative training methods that can contribute to a deeper learning experience.**

Gamification was used, with participants in an escape room having to deal with real-life situations from the perspective of a fraudster. This approach enabled auditors to strengthen their professional scepticism and gain a better understanding of fraud risks. We also see examples of regular distribution of short visual explanations of specific fraud schemes and mechanisms. These innovative methods can contribute to a deeper learning experience, increased engagement and professional scepticism.



Measure: involving fraud experts based on predetermined criteria and developing initiatives to train fraud experts and establish a fraud community.

The involvement of a fraud expert in the statutory audit can contribute to the quality of fraud risk analysis, for example by increasing the attention paid to fraud risks. The fraud expert can also provide a fresh external perspective in meetings with members of the audit team. In the review, we noted that all audit firms allocate fraud experts to audit engagements based on predetermined criteria.

Fraud experts may be involved for parts of the audit, such as the fraud risk analysis, but also for the entire audit process. Initiatives were also taken to train colleagues to become fraud experts, referred to as 'fraud champions', and to establish fraud communities. One audit firm, for example, established a separate fraud community in which employees on different job levels throughout the organisation are trained each year to become fraud experts.

**Good practice: training colleagues to become fraud experts and establishing a fraud community**

One audit firm established a fraud community in which employees are trained each year to become fraud experts. The members of the fraud community can be approached, for example, to brainstorm on fraud risks and related procedures. They are also the first point of contact in the event of suspected fraud during the audit and consultation on follow-up steps. The members of the community are also involved in reviewing passages on fraud in the auditor's opinion. The fraud community meets periodically and its members have now been given a role as fraud experts. More and more employees are thus developing expertise in this area and can easily share the resulting knowledge and skills with the practice. Audit teams also have easy access to these members to discuss issues or cases, enabling them to respond more proactively. We therefore see this as a good practice, because it can help to increase quality, including the quality of the fraud risk analysis.

**Measure: using different types of coaching to strengthen the quality of fraud risk analysis during the statutory audit.**

The coaching takes place during the performance of the statutory audit, so feedback is followed up immediately and contributes to the quality of the statutory audit. A common approach is to conduct interim evaluations of the fraud risk analysis in which a fellow auditor – often outside the immediate sector or audit team – assesses the fraud risk analysis, provides feedback and determines the follow-up. These assessments focus specifically on fraud risk analysis or form part of a wider coaching programme addressing the quality of statutory audits.

The coaching focuses on asking critical questions with regard to the fraud risk assessments, substantiating fraud risks and encouraging professional scepticism in the audit team. The resulting insights are valuable for the current statutory audit and are also applied more widely in other statutory audits. This creates a learning environment

in which audits teams are supported in strengthening their professional judgement and improving the quality of fraud risk analysis.

**Good practice: sharing the common themes from the hot file reviews with the audit practice**

An audit firm shares the common themes of its hot file reviews with the audit practice. The key issues identified by the audit teams during the hot file reviews are continually discussed in organisation-wide meetings or internal newsletters. This highlights the recurring issues that need attention.

This is a good example, because it not only increases the learning experience of individual audit teams but also contributes to a shared awareness of quality throughout the audit practice.

By actively sharing common themes, audit teams can learn from each other, preventing recurrence of the same deficiencies. Furthermore, it can encourage an open dialogue on technical issues and strengthen professional scepticism.

**Measure: tightening the consultation policy.**

Consultations may involve informal or formal consultation on issues, such as coordination on issues arising from the fraud risk analysis. In our review, we noted that audit firms have adjusted or tightened their consultation policies in response to the 'More attention for fraud risks!' report.

In the case of one audit firm, for example, consultation is mandatory⁵ if the presumed fraud risk in revenue recognition has been rebutted. In most audit firms, the consultation policy is aimed at giving audit teams accessible means of discussing matters.

Potential issues can then be detected and followed up earlier, with the role of consultations shifting increasingly from reactive to proactive. We refer to 'Good practice: training colleagues to become fraud experts and establishing a fraud community' as a good example of application by an audit firm.

**Measure: updating and tightening guidelines and procedures for fraud risk analysis.**

The documentation of team meetings has been updated to include sample questions and clear instructions on what should be recorded. This also includes descriptions of the poor examples (referred to as pitfalls). In-depth questions have been drawn up for discussions with management concerning fraud prevention, detection and response. These questions help to identify and substantiate relevant fraud risk factors. The procedures stress the importance of careful minuting of these discussions. It has also been made clear that internal control measures should not be seen as a mitigating factor when assessing fraud risks. These measures prevent risks being underestimated and can contribute to a more rigorous fraud risk assessment.

⁵ A number of exceptions have been specified in which the consultation obligation does not apply.

⁶ In June 2022, the Royal Netherlands Institute of Chartered Accountants (NBA) published the report 'Exploratory root cause analysis into fraud: Fraud requires a more critical attitude'.

2.2 The AFM sees room for improvement in the system of quality control**Areas for improvement: measures in place, but no thorough root cause analysis.**

Effective improvement of fraud risk analysis starts with an understanding of the underlying root causes of deficiencies. If there is no thorough root cause analysis, there is a risk that measures will merely treat the symptoms and that structural problems will persist. Behavioural and cultural aspects are an essential part of the root cause analysis⁶.

Our review shows that only a few audit firms conduct in-depth root cause analyses. Insufficient attention is paid to behavioural and cultural aspects. Timely analyses of the underlying root causes of deficiencies enable audit firms to identify the fundamental causes, so they can take appropriate measures and thereby avoid recurrence of the observed deficiencies.

**Areas for improvement: monitoring and impact assessment are not sufficiently developed.**

We noted that audit firms have taken measures to improve the quality of fraud risk analysis in statutory audits. Although the measures described in section 2.1 contribute to the quality of fraud risk analysis, we note that there is insufficient insight into the actual effectiveness of individual measures.

The current assessment tools, such as Engagement Quality Reviews and Internal Quality Inspections provide valuable information on the quality of statutory audits, but they are often too broad in scope to assess the specific impact of individual measures on fraud risk analysis.

It also emerged that the assessment questions are not always sufficiently specific for the effectiveness of measures to be properly assessed. Some audit firms have introduced various guidelines and procedures to strengthen the quality of the fraud risk analysis, such as sample questions for team discussions and guidelines for discussions with management. In some of the reviewed statutory audits, however, we found that the statutory auditors were either unfamiliar with the procedures or were not following them. This highlights the need for a structural impact assessment of the measures taken.

It is important that audit firms carry out a more detailed evaluation of the extent to which the measures actually help address the observed deficiencies. This can be done, for example, by conducting targeted evaluations and further expanding data-driven monitoring. With a clearer understanding of the effectiveness of individual measures, audit firms can better prevent similar deficiencies in the future, optimise their approach and make targeted adjustments where necessary.



Areas for improvement: the presumed fraud risk in revenue recognition is still too often rebutted, despite tighter procedures and consultation obligations.

The auditor must presume the existence of fraud risks in revenue recognition and must assess which types of revenue, revenue transactions or assertions give rise to these risks. The bar for rebutting the presumed risk of fraud in revenue recognition is high, and it can therefore not be easy to rebut this. In our 'More attention for fraud risks!' report, however, we noted that the presumed fraud risk in revenue recognition had been rebutted in a relatively large number of statutory audits. This gave the impression that for certain audit firms and sectors rebuttal is the norm.

The AFM engaged in dialogue with the sector and all audit firms have now taken measures to reduce the number of statutory audits in which the presumed fraud risk is rebutted (possibly too lightly). Audit firms have accordingly clarified their policies and guidance on this matter. Their guidance emphasises, for example, that one or more fraud risks will be presumed in revenue recognition, in line with NV COS 240.27 and NBA practice note 1153. Audit firms have also taken other measures, such as internal analysis and monitoring of statutory audits in which the risk of fraud has been rebutted, mandatory consultation if the fraud risk has been rebutted and addressing this topic in training courses. In addition, a number of audit firms have developed specific or sector-specific guidance to support the statutory auditor in identifying and evaluating fraud risk factors and fraud risks in revenue recognition.

Despite the measures taken, we still see the presumed fraud risk being rebutted in a number of statutory audits, particularly in PIE audits and in certain sectors.⁷ The AFM has the impression that the fraud risk in revenue recognition is therefore not only being rebutted in exceptional situations. We find that sector-specific guidance often provides too much room to rebut the presumed fraud risk and may actually encourage it. A number of audit firms also still lack sufficient insight into the frequency of fraud risk rebuttal in revenue recognition.

We therefore call on audit firms to continue the actions they have initiated to reduce the number of statutory audits in which the fraud risk is rebutted. This can be done, among other things, by using data to identify the statutory audits in which the fraud risk was rebutted. In so doing, it is important to evaluate whether the measures taken are having the desired effect and to make adjustments where necessary.

⁷ The publication 'NBA Analysis of fraud in auditor's opinions 2023' shows, among other things, that the fraud risk in revenue recognition was only included in 54% of the PIE auditor's opinions examined in respect of the 2023 financial year. In total, the auditor identified fraud risk in revenue recognition in 79% of the reviewed auditor's opinions.



Good practice: insight and impact assessment in relation to the rebuttal of presumed fraud risk in revenues

One audit firm has insights (from the 2021 financial year onwards) in the statutory audits in which the fraud risk in revenue recognition was rebutted, which statutory auditor was responsible and the sector in which the statutory audit client operates. In 2023, the audit firm held discussions based on this information with statutory auditors who quite often rebutted the fraud risk in revenue recognition. This led to a decision to add the presumed fraud risk in revenue recognition to the fraud risk analysis in various statutory audits. Two subsectors were earmarked for closer examination of the need for individual or sector-wide measures. This is because the percentage of rebuttals in these subsectors was substantially higher than in other sectors.

This is a good practice, because the audit firm has made targeted adjustments based on data-driven monitoring. Analysis, dialogue and targeted measures have led to a demonstrable fall in the number of rebuttals of fraud risk in revenues. The follow-up review of sectors with different patterns also shows a learning and risk-oriented approach.

3. Results of review of quality of fraud risk analyses

The number of findings in the reviewed fraud risk analyses has decreased significantly compared to the AFM review in 2023. We note that elements of the system of the quality control, such as training courses, education and hot file reviews, can contribute to the quality of fraud risk analysis and hence to the quality of the statutory audit. We see statutory auditors paying more attention to fraud in the reviewed fraud risk analysis. At the same time, there is a need for improvement when it comes to gaining an understanding of the entity and its environment, with auditors exercising professional scepticism and documentation thereof in the audit file.

3.1 Greater attention was given to fraud in the reviewed fraud risk analyses



Evident fraud risk factors were identified and evaluated in almost all cases, such as client-specific or sector-specific fraud risk factors and significant deficiencies in internal control.

Most of the reviewed fraud risk analyses also include substantiation as to why fraud risk factors did or did not lead to a fraud risk.



Improvement can also be seen in the identification and assessment of fraud risks. For example, fraud risks are more often identified specifically, such as the mandatory fraud risk in management override of internal controls. The statutory auditor also assessed which specific items in the financial statements and relevant assertions are subject to fraud risk. There are only a few cases in which we still see internal control measures (and possibly their positive effects) being incorrectly taken into account when evaluating fraud risk factors and assessing fraud risks.

3.2 Greater professional scepticism required when gaining an understanding of the entity and its environment

Although no findings were recorded in most of the reviewed fraud risk analyses, our review shows a need for improvement when it comes to gaining an understanding of the entity and its environment, with auditors exercising professional scepticism and documentation thereof in the audit file. This is important, because making inquiries about fraud, conducting discussions with the management and supervisory board members and discussing fraud risks within the audit team are essential for a proper understanding of the company and the risks in the statutory audit.

If these matters are not addressed with professional scepticism, there is a risk that the fraud risk factors and/or fraud risks present will not be identified.

In all the reviewed fraud risk analyses, the statutory auditor gained an understanding of the entity and its environment, for example by inquiring about fraud, conducting discussions with the management and supervisory board members and discussing fraud risks within the audit team. However, the degree of professional scepticism was difficult to gauge, due to the lack of depth and robustness of these procedures.

**Areas for improvement: inquiries about fraud must be conducted with greater professional scepticism**

We see that inquiries are still too often focused on recording incidents rather than identifying and controlling fraud risks and responding appropriately. Discussions on fraud with the management and the supervisory board generally remain superficial. They take place primarily in the context of the audit plan, the management letter and/or the auditor's report. Discussion reports and minutes often lack the necessary depth, so it is not possible to determine whether professional scepticism was exercised.

**Areas for improvement: statutory auditors must conduct more in-depth team meetings on fraud**

Although every statutory audit included a team meeting on possible fraud in the financial statements, we also find that those discussions often lack the required depth. That makes it difficult to gauge the degree of professional scepticism. Relevant fraud risk factors are not sufficiently discussed. The relationship with the elements of the fraud triangle is also sometimes unclear. Furthermore, the evaluation and substantiation as to why fraud risk factors do not lead to a fraud risk is often too brief.