

Accountancy Europe  
Attn.  
Harun Saki  
[harun@accountancyeurope.eu](mailto:harun@accountancyeurope.eu)

P.O. Box 7984  
1008 AD Amsterdam  
Antonio Vivaldistraat 2-8  
1083 HP Amsterdam  
T +31 20 301 03 01  
[nba@nba.nl](mailto:nba@nba.nl)  
[www.nba.nl](http://www.nba.nl)

Date	Re	Our ref	Attachment	Direct dial nr
April 29, 2021	Fraud recommendations to strengthen the financial reporting ecosystem	MvK		020 30 10 328

Dear Harun Saki,

## General

The NBA welcomes the opportunity to respond with feedback to the publication *Fraud recommendations to strengthen the financial reporting ecosystem* of Accountancy Europe, which presents recommendations to strengthen the financial reporting ecosystem. Before we inform you in the details of the publication, we would like to make some general remarks.

We appreciate the initiative as the topic Fraud is an important subject matter which gives reason for a lot of debate. Fraud is a relevant issue for all stakeholders and they relate to the financial ecosystem as a whole as mentioned in the discussion paper. As audit profession we should pro-actively be involved and coordinate initiatives worldwide at a short term.

Currently, in the Netherlands there are various national initiatives relating to this subject matter. For example, in the Netherlands there is an initiative to report by default about fraud in the auditor's report (first we started a pilot for FY2020 and for FY2021 it will become mandatory) by including an 'other matter-paragraph' based on ISA 706.

At the same time, the fraud issue needs to be clearly analyzed with all parties involved which could take more time and would also need action from other parties (e.g. accounting standard setters). Nevertheless, alternative solutions might be available even in the short term. For example, auditors are able to insist that material fraud issues are reported by management in the management 's discussion and analysis in the annual report. We are working with stakeholders on best practice fraud risk management measures for companies and we will organize round table discussions to generate support.

Royal Netherlands  
Institute of Chartered  
Accountants



## Publication Fraud recommendations to strengthen the financial reporting ecosystem

First we have some general feedback about the scoping. In the publication is mentioned that the presented perspectives focus on the European public interest entities (PIEs). We would suggest to include larger non-EU PIES as suggested also for the NFI-Directive and pay in general more attention to non-PIEs and their auditors. We would also suggest to include the fraud triangle, noncompliance with laws and regulations, soft controls and whistleblowing procedures and refer to ISA 315.

In the publication is forensic expertise indicated as idea to be explored, but this could be more included as a more firm recommendation as we think forensic expertise is beneficiary especially to the risk analysis phase of the audit in certain circumstances. External reporting to competent authority should not be based on the situation that the client does not investigate the issue, but should be based on adequate remediation, which includes an investigation. We support the recommendations in general but for some of them we miss a clear goal and what we are going to do to achieve these goals.

Below we discuss our recommendations per page:

The publication describes on **page 3** that there is often a link between fraud and going concern. Often is in this case not a proper term. We suggest to recommend that triggering events in relation to going concern should be taken into account as a fraud risk factor/indicator.

On **page 4** two categories of fraud are mentioned that are relevant for a financial statement audit and that causes material misstatement. We would recommend to leave the word material out, because fraud risks and especially indications of fraud are always material for both mentioned categories of fraud.

On **page 5** it is mentioned that auditors apply a risk based approach in which they consider fraud risk factors. We suggest to include the fraud triangle, in which we can also indicate the aspect of rationalization, soft controls and noncompliance with laws and regulations. Also for the auditor it is very important to clearly understand the business of the client, like the complexity in business models and structures, third parties, outsourced activities. Business models can change every year, so we would suggest to include that fraud risk factors also can change every year and under special and uncertain circumstances (for example in the covid-19 situation when normal business is not usual). And also important to address that for all activities management and those charges with governance are responsible for, including third parties and outsourced activities.

On **page 6** it is mentioned that senior management fraud requires a different approach. We support the risk but the recommendation is not very clear to the point. What do you expect from those charged with governance and the auditor? On **page 8** for example you mention that audit committees collaboration with external auditors is vital for addressing management fraud risk. We would suggest to include management fraud risk as a mandatory item to discuss with the auditor. Furthermore those charged with governance should challenge management risk assessment in relation to fraud (risks).



On **page 8** it is stated that, in accordance with the EU Audit Regulation, auditors should inform the audited company and invite its management to investigate and take appropriate measures when they suspect that irregularities, including fraud regarding the financial statements may have occurred. If management does not investigate the matter, the auditor has to inform the authorities responsible for investigating such irregularities. We suggest change the scope to mandate effective full remediation, including the investigation. In the Dutch regulation a reporting to the competent authorities is based on adequate remediation and only on management having the possible irregularities investigated.

On **page 8** it is mentioned that audit committee's effectiveness should be supported by well-established whistleblowing structures. We would suggest that whistleblowing procedures should be a separate point and put more emphasis to this instrument since it is the most important mechanism to detect irregularities. We suggest that a structural analysis of incidents and a periodic evaluation of the mechanism is done by management and evaluated by the auditor.

As mentioned before, on **page 8** we recommend the need of forensic expertise in some or all stages of the audit, dependent of the fraud risks. Now that is presented as an idea only.

**Page 9**, the communication of the auditor about their work and conclusions: we would suggest to include general paragraphs in the long form audit report, which includes also the two way communication and effectiveness of the fraud risk assessment of board/audit committee.

**Page 9**, we would suggest to make that for every idea, the purpose and why it is important more clear. And when talking about more extensive training of auditors it is also important to focus on the base education for auditors.

On **page 10** more extensive use of data is also important in understanding the business and to improve the risk analysis. Furthermore we would suggest that auditors independently receive payment data from banks for data-analysis.

At last, in the overall considerations we suggest to address that auditors should perform the audit with a more suspicious mind, which is somewhat different attitude than professional skepticism.

#### Closing Remarks

For further information, please contact Marianne van Kimmenade ([m.vankimmenade@nba.nl](mailto:m.vankimmenade@nba.nl)).

Yours sincerely,  
NBA, the Netherlands Institute of Chartered Accountants,



Signed by  
Berry Wammes  
CEO

