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Fraud risk management

Recommendations for directors and supervisory bodies

February 2022

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About this publication
This document is a publication of the Royal Netherlands Institute of Chartered Accountants (Koninklijke NBA). The content has been created at the initiative of the Public Interest Steering Committee under the responsibility of the Fraud Work Group.

Contents

Foreword

Financial-economic crime, including fraud, is a significant social problem that can have a severe and adverse financial impact on citizens, organisations and the government. Fraud occurs in both small and large organisations. In addition to causing financial damage, fraud can prevent you from achieving your business goals and jeopardise the continuity of your organisation as a going concern. In addition, fraud damages the integrity of your organisation and may potentially have a detrimental effect on your organisation's image.

The board and the supervisory body are primarily responsible for the prevention and timely detection of fraud. The accountant performing the audit is responsible for detecting fraud that is material to the financial information that the accountant audits, such as the annual accounts. Therefore, an open and honest relationship between the board, the supervisory body and the accountant is important. A relationship, in which all matters can be discussed, including sensitive matters such as suspected fraud, non-compliance with laws and regulations, and/or integrity issues. With the joint goals of achieving more effective collaboration in the area of fraud risk management, preventing fraud and detecting it in a timely manner within your organisation and strengthening the chain of accountability.

The NBA's Fraud Work Group has put together this brochure with the aim of providing guidance to directors and supervisory bodies when assessing fraud risks and the measures for managing fraud in your organisation. Directors or members of a supervisory body in organisations can use the recommendations on fraud risk management to concretely implement risk management, and prevent and detect fraud and corruption. The recommendations also help you engage in frank and open discussion with your accountant.

So what should you do if your organisation is confronted by a case of suspected fraud? You may experience an emotional response, uncertainty, or even panic, depending on the severity of the fraud and the possible consequences. An NBA brochure, "Preparing a fraud response plan, Recommendations for directors and members of supervisory bodies", provides recommendations on how organisations should prepare a fraud response plan. A roadmap with instructions that indicates how you can act as a director or member of a supervisory body in the event of suspected fraud. A fraud response plan helps you act appropriately and expeditiously to minimise damage to the organisation, in all its forms.

The recommendations in this brochure have been put together in collaboration with more than 60 stakeholders, including a large number of interest groups, directors, supervisory bodies and shareholders of both small and large organisations.

The Fraud Work Group is very grateful to all stakeholders for the input they provided as we prepared the recommendations in this brochure. In addition, we would like to thank the stakeholders for indicating the recommendations in force within their own organisations. This information resulted in extremely valuable feedback and input.

Thank you for your contributions. Fraud Work Group

Therefore, an open and honest relationship between the board, the supervisory body and the accountant is important. A relationship, in which all matters can be discussed, including sensitive matters such as suspected fraud, non-compliance with laws and regulations,and/or integrity issues

The 11 recommendations summarised

The recommendations in this brochure are presented in eleven themes and chapters. Within each topic, we distinguish between recommendations for the board and recommendations for the supervisory body. All the recommendations are appropriate to the role and duties of directors or the members of supervisory bodies.

As a member of a supervisory body, you actively monitor the board's implementation of the recommendations and provide substantive input where necessary and possible. The recommendations for the supervisory body are not applicable to all organisations as some organisations do not have a supervisory body You may be able to implement the recommendations for supervisory bodies in an alternative manner as a director or have them implemented by a different body within your organisation.

Finally, we emphasise that the recommendations are relevant to all organisations, regardless of size. But, obviously, they must be implemented specifically and proportionally, taking into account the complexity and size of the organisation.

The 11 recommendations summarised:

1. The board and the supervisory body **act fairly** and promote integrity in business operations; in this respect, they **set an example** for employees and clearly convey the desirability of this behaviour and attitude (**'tone at the top'**). The board supports a **culture in which reporting abuse and malpractice is encouraged.** The board ensures preparation of an **internal code of conduct**, actively abides by and supports it, and also discusses it with the employees. There is a **zero-tolerance policy on deliberate non-compliance with laws, regulations and the code of conduct**. The supervisory body oversees the exemplary role of the board and compliance with the internal code of conduct.

2. The board promotes **an open culture in which attention is given to the performance and achievements of employees and equal treatment**, with a **remuneration policy in line with market rates**. The intention is to **promote employee satisfaction**. Employee satisfaction is measured periodically in an anonymous survey. The supervisory body receives the results of the anonymous **employee satisfaction survey** (ESS) from the board and discusses the actions required with the directors.

3. The board works to create a **safe environment** in which employees, customers, suppliers and other stakeholders are encouraged to initiate discussion on and report problems or malpractice **to a fraud disclosure desk** and has formulated a **whistleblower policy**, that provides protection for whistleblowers. The board communicates the **whistleblower policy** to all the relevant parties and ensures adequate follow-up in response to reports.
   The supervisory body ensures that a fraud disclosure desk and whistleblower policy are in place and oversees their operation. Both the board and the supervisory body react proactively to fraud reports and reports submitted under the whistleblower policies, formalise the lessons learned and take steps to prevent recurrence.

4. The board implements a **realistic and suitable remuneration policy**, which avoids incentives that lead to undesirable behaviour and also evaluates the remuneration policy when carrying out the fraud risk assessment. The supervisory body oversees the remuneration policy, which is designed to promote **integrity and fair business practices**.

5. The board ensures sufficient **diversity within the board, management and supervisory body** and a balanced split of tasks, responsibilities and decision-making authority, **welcomes unsolicited advice and also solicits advice when necessary**, and makes sure that there is adequate **opportunity for employee participation**.

6. The board sets up an **adequate system for assessing fraud and corruption risks**, and also implements **internal control measures** to mitigate those risks. The effectiveness of these control measures is evaluated periodically and the **fraud risk assessment** is reviewed at regular intervals, possibly using the **fraud triangle** as an analysis tool. The supervisory body monitors the internal control measures aimed at mitigating fraud risks (to prevent and detect fraud and corruption). The board speaks to and **informs the accountant** each year about the results of the assessment of the fraud risks and the internal control measures that have been implemented.

7. As part of the board's internal code of conduct, the directors develop standards and values for **mitigating corruption risks in business relationships with customers, suppliers and intermediaries**, including **guidelines** for accepting and giving gifts, for additional activities, for conflicts of interest, representation and sponsorship activities. This includes the **policy and reporting requirement** relating to close or long-term relationships between directors and/or employees with customers, suppliers or intermediaries. Perform a **screening** exercise before setting up a customer or supplier relationship.

8. The board facilitates periodic **training to raise fraud awareness among all employees and directors**, tailored to the nature, size and complexity of the organisation, and emphasises and communicates the importance of fraud awareness, including the risks of corruption and of cyber fraud. The board and the supervisory body take action to ensure that they are kept informed of **incidents involving fraud and corruption** within similar organisations and consciously ask themselves: **Could this happen in our organisation as well?**

9. The board is responsible for preparation of the annual accounts and ensures **adequate recording** and documented substantiation, and (a process for) authorisation of journal entries in the accounts. This **helps prevent and ensures early detection of fraud in the financial reporting system**. In addition, adequate record-keeping and an effective administration process contribute to efficient preparation of annual accounts that are free of errors and fraud.

10. The board c**ommunicates proactively with the accountant in an open relationship**, in which all matters can be discussed, including sensitive matters such as suspected fraud, non-compliance with laws and regulations, and/or integrity issues. **The board plays an active role in managing fraud risks.** If fraud is suspected, the board reports it to the accountant and the supervisory body at the earliest possible stage and involves them in the subsequent steps. The board facilitates a **direct line of communication between the works council, the supervisory body and the accountant.** The board and supervisory body take note of the findings reported by the accountant and initiate follow-up action.

11. The board **acts adequately and expeditiously in the event of suspected fraud or non-compliance with laws and regulations** and prepares a **fraud response plan** in advance, to ensure prompt and appropriate action in the event of suspected fraud, non-compliance with laws and regulations and integrity issues. A fraud response plan helps the organisation act appropriately and expeditiously **to minimise damage to the organisation, in all its forms.**

Introduction

The concrete and broad set of recommendations presented in this brochure help you, as a director and/or member of the supervisory body of an organisation, to prevent fraud and corruption and to manage the risks of fraud and corruption. All organisations, regardless of their size and complexity, can apply these recommendations proportionally in the way that best suits the nature of the organisation. Recommendations that help you answer questions relevant to every director and member of a supervisory body, such as:

As the director of an organisation, how do you concretely implement fraud risk management?

How do you ensure that fraud or corruption is detected in a timely manner and stopped before it becomes a problem?

As a director, what actions do you take when faced with a strong suspicion of fraud or corruption that has a serious impact on the organisation?

What is your role as a member of a supervisory body in respect of fraud risk management?

How do you know if the board is effectively managing fraud and corruption risks?

How do you determine that the board itself is not involved in fraud? And if the board is guilty of this, what actions do you take as a member of the organisation's supervisory body?

The board, the supervisory body and the accountant are all responsible - based on their roles - for the prevention and timely detection of fraud in financial information, such as the annual accounts. Therefore, an open and honest relationship between the board, the supervisory body and the accountant is important. A relationship, in which all issues, including sensitive matters such as, suspected fraud, non-compliance with laws and regulations and integrity issues can be discussed in order to achieve the common goal of more effective collaboration in respect of fraud risk management and to strengthen the accountability chain.

1. Tone at the top, culture and behaviour, including the internal code of conduct

Tone at the top is the behaviour and attitude of top management, including the board and supervisory body of an organisation, which focuses on setting a good example. After all, the idea is to set an example for others to follow. Culture and behaviour require attention and are important factors in fraud risk management as they influence proper functioning of the organisation (and the internal control measures).

Recommendations to the board:

- set a good example for your employees to follow and create an open culture;
- encourage speaking truth to power and act to promote openness, acceptance of mistakes, honesty, and business integrity;
- ensure sufficient diversity within the board and supervisory bodies and a balanced split of tasks, responsibilities and decision-making authority;
- draw up an internal code of conduct, share it with the employees, repeat it with some regularity, and make it clear that fraudulent and/or deliberately unlawful acts, financial-economic crime and (deliberate) violations of laws and regulations will not be tolerated and will result in disciplinary action;
- monitor compliance with the internal code of conduct;
- assess whether employees continue to identify with the 'tone at the top', and discuss this with employees and with managers;
- make decisions based on standards and values, as set out in the internal code of conduct and industry/sector guidelines;
- disclose the manner in which the organisation's governance is structured;
- place the evaluation of the integrity of business operations, compliance with laws and regulations and ethical conduct on the agenda with some regularity (at least once a year);
- create an open atmosphere in which employees feel supported and encouraged to share their experiences and report (suspicions of) malpractice or abuses freely and without suffering (adverse) consequences.

Recommendations to the supervisory body:

- set a good example for the board and ensure an open culture;
- oversee openness, speaking truth to power, acceptance of mistakes, honesty and business integrity;
- ensure adequate diversity within the board and supervisory body and split the tasks, powers and decision-making authorities in a balanced manner;
- ensure compliance with the internal code of conduct and advise the board on the content of the code;
- ensure that the directors and members of supervisory bodies also adhere to the internal code of conduct and guidelines set up within the sector/industry;
- take action in the event of dominance on the part of individual directors and/or members of the supervisory board;
- maintain contact with the directors, the managers and also the works council;
- subject to strict anonymity, discuss the results of discussions with employees and managers about the prevailing culture and compliance with the internal code of conduct and sector/industry guidelines with the board;
- discuss the culture, anti-corruption policies and internal controls with the accountant.

2. Attention for employees and directors

As a board, via an anonymous employee satisfaction survey (ESS), you measure how employees feel in the organisation (satisfaction, engagement, motivation, loyalty) and what the consequences are (working atmosphere, employee turnover, absenteeism, effectiveness, efficiency, customer orientation and productivity). Based on the results of the ESS, you can promote an open culture that allows a strong focus on the performance and achievements of employees and ensures equal treatment. An engaged and satisfied employee contributes to effective management of fraud risks within your organisation.

Recommendations to the board:

- set a good example for your employees and promote an open culture that allows a strong focus on the performance and achievements of all employees;
- appoint an approachable confidential adviser, who can comfort, guide and support employees, analyse incidents and advise employees about them and refer them to professional care providers;
- treat employees equally and draw up a remuneration policy in line with the market;
- conduct a background check on (new) employees, directors and members of the supervisory body;
- take note of the personal circumstances of employees (taking into account privacy legislation) that may lead to a susceptibility to commit fraud, (such as addictions or financial problems) and include this in the fraud risk assessment;
- where possible and/or desirable, facilitate assistance for employees in difficult personal circumstances;
- always ensure a safe environment, and the protection and anonymity of whistleblowers and people who report fraud;
- arrange a periodic (externally facilitated) anonymous ESS and consider the results of previous surveys in the analysis;
- in the ESS, address basic prerequisites for fraud risk management, such as, for example, a safe working environment, cultural perception, familiarity with the disclosure desk, employees' assessment of fraud risks, the workload and dissatisfaction;
- discuss the results of the ESS and assess whether, and if so what, actions should be taken based on these results;
- involve the accountant and the supervisory body in the set-up, the anonymised results and the (proposed) actions arising from the ESS.

Recommendations to the supervisory body:

- monitor the exemplary role of the board and ensure an open culture that allows a strong focus on the performance and achievements of all employees;
- ensure that a highly visible independent confidential advisor is appointed within the organisation;
- ensure equal treatment of employees and directors and review the remuneration policy to assess market conformity;
- monitor the implementation of background checks on (new) employees, directors and members of the supervisory body;
- set up a procedure to ensure that the board keeps the supervisory body informed about the personal circumstances of employees (taking into account privacy legislation);
- gain an understanding of the personal circumstances of directors that may lead to a susceptibility to commit fraud, (such as addictions or financial problems);
- where possible and/or desirable, facilitate assistance for directors in difficult personal circumstances;
- discuss with the board the results of the board's anonymous ESS;
- advise the board on actions based on the ESS results and ensure that the board follows up on the advice.

3. Fraud disclosure desk and whistleblower policy

As a director and/or member of the supervisory body, you can give substance to integrity awareness within your organisations by implementing and maintaining an internal system for reporting malpractice, including a fraud disclosure desk and a whistleblower policy.
Abuse and malpractice can be uncovered or prevented through reporting systems.

Recommendations to the board:

- set up a fraud disclosure desk and draw up a whistleblower policy;
- inform employees, customers, suppliers and third parties (if appropriate) of the existence of the fraud disclosure desk and whistleblower policy, through publication on the website, inclusion in general terms and conditions and/or standard text blocks in contracts or orders;
- always ensure a safe environment, by offering and implementing procedures to protect whistleblowers and people who report fraud, and preserve their anonymity;
- ensure timely reporting to (the audit committee of) the supervisory body and the accountant of the reports submitted, the results of investigations and any follow-up actions that have been taken (or will be taken);
- action the approved follow-up steps resulting from the reports of fraud and whistleblower reports;
- formalise the lessons learned from fraud reports and reports under the whistleblower policy and prevent recurrence.

Recommendations to the supervisory body:

- monitor the existence and proper operation of a fraud disclosure desk and whistleblower policy;
- ensure a safe environment by protecting whistleblowers and people who report fraud, and preserving their anonymity;
- obtain from the board a timely report of the reports received, the results of investigations and the follow-up actions taken (or to be taken).
- ensure timely reporting to (the audit committee of) the supervisory body and the accountant of the reports received by the fraud disclosure desk and under the whistleblower policy, and the results of investigations and any follow-up actions that have been taken (or will be taken);
- establish that follow-up action is taken (or will be taken) based on the fraud reports and reports under the whistleblower policy;
- formalise the lessons learned from fraud reports and reports under the whistleblower policies and prevent recurrence.

4. Remuneration policy

In order to prevent incentives that lead to undesirable behaviour within your organisation, the board applies a realistic and appropriate remuneration policy. The remuneration policy is included in the fraud risk assessment. The supervisory body ensures that the remuneration policy promotes integrity and fair business practices.

Recommendations to the board:

- ensure that the organisational goals and the resulting targets for managers and employees are realistic;
- set appropriate targets, within the applicable standards and values based on the internal code of conduct and sector/industry guidelines;
- set both short-term and long-term targets;
- ensure a remuneration policy that promotes integrity and fair business practices;
- ensure a remuneration policy that not only reflects financial indicators, but also takes into account aspects such as customer satisfaction, environmental performance and/or social and community policy;
- assess the remuneration policy for the presence of incentives that could lead to undesirable behaviour and take action to eliminate or avoid undesirable incentives;
- assess fraud risks in the design of the remuneration policy and take action to mitigate these fraud risks;
- avoid, in consultation with the supervisory body, a situation where the remuneration of directors and other employees primarily consists of a variable remuneration component (increased risk of fraud);
- in conjunction with (the remuneration committee of) the supervisory body, assess the remuneration policy at regular intervals;
- apply a clawback policy if variable bonuses have been awarded retrospectively based on financial results that are later shown to be incorrect.

Recommendations to the supervisory body:

- assess whether the organisational goals and the resulting targets for managers and employees are realistic;
- monitor the appropriateness of targets, within the applicable standards and values based on the internal code of conduct and sector/industry guidelines;
- ensure the use of both short-term and long-term targets;
- monitor application of a remuneration policy that promotes integrity and fair business practices;
- monitor the remuneration policy to ensure that it not only reflects financial indicators, but also takes into account aspects such as customer satisfaction, environmental performance and/or social and community policy;
- establish that when the remuneration policy was drafted by the board, an assessment was made of the fraud risks and measures were implemented to eliminate or avoid these fraud risks;
- oversee the remuneration policy to ensure that it is free of incentives that could lead to undesirable behaviour and oversee measures to remove or avoid undesirable incentives;
- avoid a situation where the remuneration of directors and other employees primarily consists of a variable remuneration component (increased risk of fraud);
- periodically assess the remuneration policy in conjunction with the board;
- oversee the payment of remuneration in accordance with the remuneration policy;
- oversee the claw-back policy and compliance with the claw-back policy.

5. Sufficient room for speaking truth to power within the board and from the organisation

Everyone in an organisation needs to feel that his voice is heard. Sufficient diversity and a balanced split of tasks, powers and decision-making authority within the organisation contribute to creating adequate room for speaking truth to power. In addition to you as a director or member of a supervisory body, there must be room for adequate participation by management and your employees.
An environment in which people feel heard contributes to an open culture within the organisation.

Recommendations to the board:

- ensure sufficient diversity within the board, management and supervisory body and a balanced split of tasks, powers and decision-making authority, with major decisions requiring the approval of all the directors (unanimity) and/or the supervisory body;
- ensure that key organisational units, such as risk management, legal, compliance, and the internal auditor have the tools and authority needed to conduct (independent) assessments and provide advice on major decisions;
- take note of the advice of employees (in key positions), and indicate how this advice has been applied or how it was assessed in the decision-making process;
- promote sufficient participation opportunities for employees, for example, by setting up a works council or staff association.

Recommendations to the supervisory body:

- oversee the existence of sufficient diversity within the board, management and supervisory body and a balanced split of tasks, powers and decision-making authority, with major decisions requiring the approval of all the directors (unanimity) and/or the supervisory body;
- ensure that the board gives key organisational units, such as risk management, legal, compliance, and the internal auditor (if any) the tools and authority needed to perform (independent) assessments and provide advice on major decisions;
- arrange a direct flow of information, without involvement of the board, from key organisational units, such as risk management, legal, compliance and the internal auditor;
- take note of the advice of employees (in key positions) and how the board follows up on that advice;
- indicate how follow-up relating to the advice of employees (in key positions) has influenced supervision.

6. Internal control

Internal control includes the entire set of control measures, which focus on achievement of the (strategic) goals set for the organisation. These control measures include a system for assessing fraud and corruption risks, and also internal controls to mitigate those risks.
A system for assessing fraud and corruption risks (fraud risk management system), contributes to the prevention and timely detection of fraud risks within your organisation. It therefore helps prevent possible damage due to fraud and corruption risks.

Recommendations to the board:

- set up a system for assessing fraud and corruption risks (fraud risk management system);
- establish internal control measures aimed at mitigating fraud risks (to prevent and detect fraud and corruption in a timely manner);
- periodically determine the effective operation of internal control measures and obtain information and advice from the accountant in this regard;
- report periodically on the effective operation of internal control measures (and incidents) and follow up on actions;
- include the fraud triangle in the periodic evaluation when assessing fraud risks. Examples are provided in Appendix 1;
- discuss with the supervisory body the assessment of the fraud risks and the specific fraud risks associated with a possible breach of internal controls by directors;
- include advice from the supervisory body when determining internal control measures;
- each year, inform the accountant of and discuss the results of the assessment of the fraud risks and the internal control measures that have been implemented.

Recommendations to the supervisory body:

- oversee the system for assessing fraud and corruption risks developed by the board (fraud risk management system);
- include in the monitoring activities information from other departments of the organisation, for example, information from the HRM department on employee turnover, absenteeism and dismissals as well as information on long-term purchasing and sales relationships;
- based on the periodic reporting by the board, determine the effective operation of internal control measures (and effective management of incidents) and obtain advice on this from the accountant.
- determine that actions identified in reports are followed up;
- assign a representative of the supervisory body who participates in periodic fraud risk assessments;
- monitor the internal control measures aimed at mitigating fraud risks (to prevent and detect fraud and corruption), paying particular attention to the fraud risks associated with breaches of internal control measures by directors;
- take note of fraud and fraud risks reported by key organisational units, such as risk management, legal, compliance and the internal auditor.

7. Anti-corruption measures and agreements with customers and suppliers

Developing anti-corruption measures, such as an internal code of conduct contributes to mitigating corruption risks within your organisation. The internal code of conduct includes guidelines and identifies the organisation's values and standards. Among other things, this internal code of conduct sets out the guidelines that you and your employees should follow when establishing relationships and making agreements with customers, suppliers and intermediaries/agents.
It ensures that everyone in the organisation knows how to behave.

Recommendations to the board:

- develop as part of the internal code of conduct, values and standards and requirements aimed at mitigating corruption risks in contracts with customers, suppliers and intermediaries/agents;
- formulate, as part of the internal code of conduct, policies and reporting requirements regarding close/long-term relationships between employees/directors with customers, suppliers, and intermediaries/agents;
- prior to entering into a customer or supplier relationship, perform a screening or "due diligence" investigation; for example, is the person with whom I am entering into an agreement the person he says he is and do the bank account and invoice details correspond to what I can find out about this person on the Internet, via the Chamber of Commerce, etc.;
- as part of the internal code of conduct, formulate guidelines for the organisation regarding accepting/giving business gifts, ancillary activities, conflicts of interest, representation and sponsorship;
- ensure compliance with the internal code of conduct and sector/industry guidelines and report in this respect to the supervisory body.

Recommendations to the supervisory body:

- oversee compliance with the internal code of conduct and its values and standards and the requirements aimed at mitigating corruption risks in the organisation's contracts with customers, suppliers and intermediaries/agents;
- establish compliance with policies and the reporting requirements regarding close/long-term relationships of employees/directors with customers, suppliers and intermediaries/agents;
- oversee compliance with organisational guidelines regarding accepting/giving business gifts, ancillary activities, conflicts of interest, representation and sponsorship;
- establish compliance with the internal code of conduct and sector/industry guidelines based on reporting by the board.

8. Fraud awareness

Providing fraud awareness training for all employees and directors raises fraud awareness in your organisation and highlights its importance. A fraud awareness training course can be tailored to the nature, size and complexity of your organisation. Current fraud risks such as CFO fraud and cyber fraud, for example, can be brought to the attention of you and your employees, and fraud case studies can be shared to raise awareness.

Recommendations to the board:

- arrange periodic fraud awareness training for employees and directors. The content of the training courses needs to match the nature, size and complexity of the organisation and emphasise the importance of fraud awareness, including the risks of cyber fraud;
- the content of the fraud awareness training course will be based on the results of an in-house fraud risk assessment;
- ensure that the fraud awareness training course is tailored to the needs of the individual functions within the organisation;
- monitor the quality of the fraud awareness training course for employees and directors;
- oversee attendance (regularity and frequency) of the fraud awareness training course by employees and directors;
- actively bring fraud awareness to the attention of employees and directors through internal communication, newsletters, company information and other channels;
- take note of and learn from fraud incidents at similar organisations, and ask the question: Could this happen in our organisation as well?

Recommendations to the supervisory body:

- ensure that the board arranges high-quality fraud awareness training course(s) for employees and directors. The content of the training courses needs to match the nature, size and complexity of the organisation and emphasise the importance of fraud awareness, including the risks of cyber fraud;
- take note of and learn from fraud incidents at similar organisations, and ask the question: Could this happen in our organisation as well?

9. Accounting and annual accounts, including estimates in the annual accounts

As a director of an organisation, you are responsible for ensuring adequate recording, documented substantiation and (a process for) authorisation of journal entries in the accounting records. By doing so, you contribute to the prevention and timely detection of fraud in your organisation's financial reporting. Adequate recording and an effective administration process also contribute to the efficient preparation of annual accounts that are free from errors.

Recommendations to the board:

- ensure adequate recording, documented substantiation and (a process for) authorisation of journal entries in the accounting records, including all general journal entries and estimates;
- document, substantiate and authorise: the choice of accounting policies;
  - o changes in accounting policies;
  - o estimates;
  - o correction of errors;
  - o changes to methods;
- calculate (if possible) multiple scenarios and provide justification/arguments for the choices/estimates made;
- have the impact of estimates reviewed by the internal auditor (if any) or assessed by (the audit committee of) the supervisory body;
- make the rationale and results of that review available to the supervisory body and the accountant;
- embrace your responsibility for the preparation of the annual accounts;
- ensure that you have up-to-date knowledge of the annual reporting rules within the organisation;
- accept primary responsibility (together with the supervisory body) for the prevention and timely detection of fraud in the organisation's financial information, such as the annual accounts.

Recommendations to the supervisory body:

- form an audit committee, which actively oversees the process of preparing the annual accounts, paying specific attention to the choice of accounting policies; changes in accounting policies; estimates; general journal entries; error correction; changes in methods;
- identify possible tendencies on the part of the board to overstate/understate results and assets in the annual accounts and discuss these issues with the accountant;
- in particular, the audit committee must be financially literate and has a good knowledge of preparing the annual statements, financial reporting rules, (fraud) risk management and internal control measures;
- oversee the board's responsibility for preparing the annual accounts;
- have up-to-date knowledge of the rules relating to the annual accounts and ensure that knowledge of legislation relating to annual accounts is present within the board/organisation;
- is responsible for approving the annual accounts;
- is aware of its primary responsibility (together with the supervisory body) for the prevention and timely detection of fraud in the organisation's financial information, such as the annual accounts.

For public-interest entities (PIEs), the establishment of an audit committee is defined as a legal requirement in the Decree on the Establishment of an Audit Committee.

10. Contact with and cooperation offered to the accountant

An open relationship with the accountant, in which all issues, including sensitive matters such as suspected fraud, non-compliance with laws and regulations and integrity issues can be discussed, helps you fulfil your active role in the management of fraud risks. If fraud is suspected, you, as a director, should report this to the accountant and supervisory body at the earliest possible stage so that you act in unison when initiating subsequent action.

Recommendations to the board:

- ensure direct contact between the works council, the accountant and the supervisory body;
- the works council is given the opportunity of discussing matters with the accountant and/or supervisory body independently and without involvement of the board;
- take action to promote an open relationship with the accountant in which all matters, including sensitive matters such as suspected fraud, non-compliance with laws and regulations, and integrity issues are discussed with the accountant;
- adopt a proactive attitude toward the accountant and give the accountant access to all information on the organisational structure, the legal structure, the ultimate beneficiary owner, activities, and any past and present issues regarding the integrity of the board;
- in the board report, state the nature, extent and number of incidents involving fraud and the anti-fraud actions taken in response;
- provide full cooperation in respect of the accountant's activities;
- proactively provide access to all information relevant to the preparation and audit of the annual accounts, such as records, documentation and other resources;
- provide any additional information, which the accountant requests for the purpose of the audit assignment;
- grant the accountant full access to persons

Recommendations to the supervisory body:

- oversee direct contact between the works council, the accountant and the supervisory body;
- the works council is given the opportunity of discussing matters with the accountant and/or supervisory body independently and without involvement of the board;
- can contact the accountant at any time, without involvement of the board, in order to speak openly with the accountant;
- promote an open relationship with the accountant in which all matters, including sensitive matters such as suspected fraud, non-compliance with laws and regulations, and integrity issues are discussed;
- ensure that the nature, extent and number of incidents involving fraud and the anti-fraud actions taken in response are mentioned in the board report;
- make recommendations (via the audit committee) regarding the appointment of the external accountant;
- monitor the board in respect of its proactive attitude toward the accountant and ensure its full cooperation with the accountant;
- participate at least once a year in the (audit committee) meeting with the board and the accountant, in order to keep informed of the findings relating to the audit of the annual accounts, including the operation of internal control measures;
- discuss the outcomes of the supervisory activities relating to the fraud risk management approach used by the board, including the assessment of fraud risks with the accountant;

Recommendations to the board:

within the organisation relevant to the performance of the work;

- actively shape the control of fraud risks by having the accountant or a specialised fraud investigator examine one or more of the identified fraud risks (and, if applicable, the internal control measures taken to mitigate those fraud risks) in more detail each year. One example of this is targeted data analysis to identify unusual financial transactions that may indicate fraud;
- suspected fraud is reported to the accountant and supervisory body at the earliest possible stage and they are kept informed during the subsequent steps;
- in consultation with the supervisory body and the accountant, schedule the audit committee meeting at least once a year for the purpose of reporting on the findings relating to the audit of the annual accounts, including the operation of internal control measures;
- take note of the findings reported by the accountant including findings related to fraud and fraud risks;
- follow up on the findings reported by the accountant including findings related to fraud and fraud risks.

Recommendations to the supervisory body:

- take note of the findings reported by the accountant, including findings relating to fraud and fraud risks. Pay particular attention to fraud risks, which are related to the breach of internal control measures by directors;
- monitor follow-up action by the board in response to the findings reported by the accountant, including findings related to fraud and fraud risks.

11. Fraud response

In order to be prepared, as a director and member of a supervisory body, for the question of how to act in the event of suspected fraud, non-compliance with laws and regulations and integrity issues, the board draws up a fraud response plan. A fraud response plan helps the organisation act appropriately and expeditiously to minimise damage to the organisation, in all its forms.

Recommendations to the board:

- act adequately and expeditiously in the event of suspected fraud, non-compliance with current laws and regulations and integrity issues, in order to prevent or limit as far as possible damage to the organisation, in all its forms
- draw up a fraud response plan in order to be prepared for the question of how to act in the event of suspected fraud, non-compliance with laws and regulations and integrity issues. The separate NBA brochure called “Preparing a fraud response plan, Recommendations for directors and members of supervisory bodies” provides recommendations on how organisations should prepare a fraud response plan;
- in the board report, state the nature, extent and number of incidents involving fraud and the anti-fraud actions taken in response;
- when fraud is suspected, contact the accountant and the supervisory body at the earliest possible stage.
- involve the accountant in the fraud response plan and put fraud on the agenda for the periodic meetings of the board and the supervisory body with the accountant.

Recommendations to the supervisory body:

- oversee the organisation’s adequate and expeditious response to a suspicion of fraud, non-compliance with laws and regulations, and integrity issues, in order to prevent or minimise damage to the organisation, in all its forms;
- establish that a fraud response plan has been prepared under the responsibility of the board;
- ensure that the nature, extent and number of incidents involving fraud and the anti-fraud actions taken in response are mentioned in the board report;
- make agreements on who assumes the lead role and coordinates within the supervisory body when following up on and handling a case of suspected fraud involving management/the board (known as management fraud);
- agree with the accountant how and by whom within the supervisory body the accountant is informed of a case of suspected fraud involving management/the board;
- in case of suspected management fraud, obtain a mandate to consult or engage a lawyer or independent specialist, who is not the in-house lawyer and/or the lawyer who normally defends the interests of directors;
- involve the accountant in the fraud response plan and put fraud on the agenda for the periodic meetings of the board and the supervisory body with the accountant.

Appendix 1:
Examples of fraud risk factors

1. Introduction

The fraud risk factors listed in this appendix are examples of factors that directors, members of supervisory bodies and accountants may encounter in a wide variety of situations.

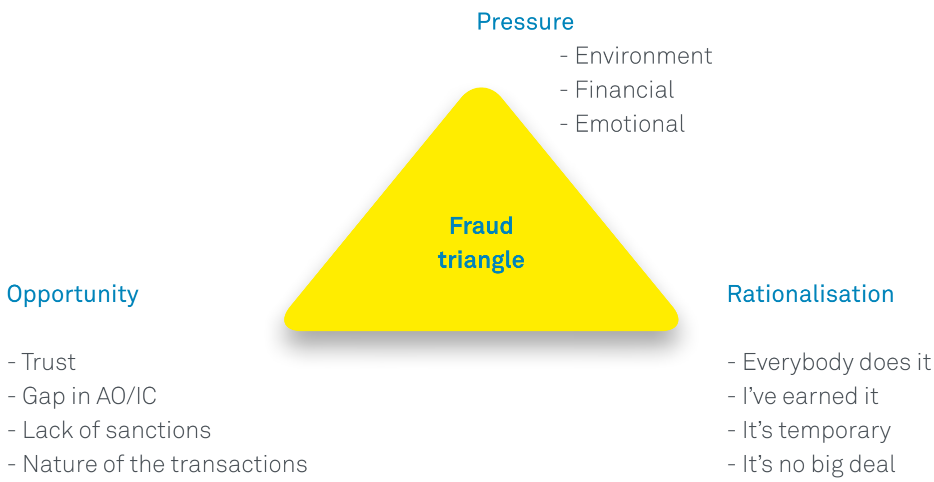
The examples are presented based on two types of fraud that are relevant from an accountant's perspective, specifically:

- fraudulent financial reporting and;
- improper appropriation of assets.

For both types of fraud, the risk factors are further classified based on the three circumstances that are usually present when material misstatements resulting from fraud occur:

1. motives/pressures;
2. opportunity and;
3. rationalisation.

These three circumstances are collectively referred to as the fraud triangle.



Although the risk factors listed below cover a wide range of circumstances, they are only examples. So persons charged with governance, the organisation's management and/or the accountant may identify additional or different risk factors. Not all of these examples are relevant in all circumstances, and some may be more or less significant depending on the size of the organisation, the organisation's specific ownership characteristics, or the circumstances. Furthermore, the order in which these examples of risk factors are described does not reflect their relative importance or their frequency of occurrence.

2. Risk factors related to fraudulent financial reporting

The following are examples of risk factors related to misstatements arising from fraudulent financial reporting.

Motives/pressure
The organisation's financial stability or profitability is threatened by economic conditions, industry conditions, or the entity's operating conditions, such as (or as evidenced by):
- a high degree of competition or market saturation, in combination with declining profit margins;
- a high vulnerability to rapidly emerging successive changes, such as technological changes, products becoming outdated or interest rates;
- a significant decline in demand and an increase in bankruptcies in the sector or in the economy as a whole;
- operating losses that lead to an acute threat of bankruptcy, foreclosure or a hostile takeover;
- recurrent negative cash flows from operating activities or an inability to generate cash flows from operating activities, while nevertheless reporting both profit and earnings growth;
- rapid growth or unusual profitability, especially compared to other companies in the sector;
- new financial reporting requirements or new requirements imposed by laws or regulations.

Management is under undue pressure to meet third party requirements or expectations due to:
- expectations of investment analysts, institutional investors, (activist) shareholders, significant creditors or other third parties regarding profitability or development levels (especially expectations that are overly ambitious or unrealistic), including expectations created by management itself, for example through overly optimistic press releases or comments in annual reports or "Capital Markets Day" presentations;
- the need for additional equity or debt financing to remain competitive, including financing significant research and development costs or capital expenditures;
- barely being able to meet the conditions for listing on the stock exchange or to repay debts or comply with clauses in financing agreements;
- expected or actual adverse effects of reporting poor financial results in relation to significant ongoing transactions, such as business combinations or contract awards.

The information available indicates that the personal financial situation of members of the management team or persons charged with governance is threatened by the entity's financial performance as a result of:
- significant financial interests in the entity;
- significant components of their remuneration (such as bonuses, stock options and earn-out schemes) are linked to the achievement of ambitious targets relating to the share price, operating results, financial position or cash flows;
- personally issued guarantees for debts of the entity;
- excessive pressure on management or executive staff to meet financial targets set by persons charged with governance, including targets related to sales or profitability.

Opportunity

The nature of the entity's sector or its business activities provides opportunity for fraudulent financial reporting that may arise from:

- significant transactions with associated parties outside the ordinary course of business or transactions with associated entities that may or may not be audited by another audit entity;
- a strong financial presence or the ability to dominate a particular sector that allows the organisation to impose conditions on suppliers or customers that could lead to improper transactions, or transactions that are not in line with the market;
- assets, liabilities, revenues or expenses that are based on significant estimates that rely on subjective judgements that are difficult to support or uncertainties;
- significant, unusual or highly complex transactions, especially those occurring just before the end of the reporting period, which raise difficult questions regarding the prevalence of economic reality over the legal form ('substance over form');
- significant operations abroad or cross-border operations in jurisdictions where different business environments and cultures exist;
- the use of intermediaries for which there appears to be no obvious business-related reason;
- offshore bank accounts or activities with subsidiaries or branch offices in tax havens for which there appears to be no obvious business-related reason.

The monitoring of management is not effective due to the fact that:

- the management (in an enterprise controlled by an owner-manager) is dominated by one person or a small group of persons and no compensating internal control measures are in place;
- the oversight exercised by those charged with governance of the financial reporting process and on internal controls is not effective.

A complex or unstable organisational structure exists, as evidenced by:

- the difficulty in determining which organisation or individuals have a controlling interest ("ultimate beneficiary owners") in the entity;
- an excessively complex organisational structure that includes unusual legal entities or hierarchical lines of authority;
- high turnover among senior management, legal advisers or persons charged with governance.

Internal control components fall short due to:

- inadequate monitoring of the internal control measures, including computerised internal controls and the internal controls related to interim financial reporting (if external reporting is required);
- high staff turnover or the deployment of ineffective staff for financial accounting, internal audit or information technology;
- ineffective accounting and information systems, including situations in which significant deficiencies in the internal control set-up exist.

Rationalisation

- ineffective communication, implementation, support, or enforcement of the entity's values or ethical rules by management, or the communication of inappropriate values or ethical rules;
- excessive involvement in or preoccupation with, respectively, the choice of accounting policies or the determination of significant estimates on the part of members of management who do not work in a finance position;
- a known history of violations of securities laws or other laws or regulations, or charges against the entity, its senior management or persons tasked with governance in respect of fraud or non-compliance with laws and regulations;
- excessive interest on the part of management in maintaining or increasing the entity's share price or earnings performance;

- management's habit of committing to ambitious or unrealistic forecasts to analysts, creditors and other third parties;
- management fails to correct known significant deficiencies in the internal control set-up in a timely manner;
- management benefits, from a tax point of view, from the use of inappropriate means to reduce the reported result;
- a low level of morale among senior management;
- the owner-manager does not distinguish between transactions of a business and private nature;
- disagreement among shareholders in an entity with few shareholders;
- repeated attempts on the part of management to justify administrative processing that is marginal or inappropriate on the grounds of materiality;
- the relationship between management and the current or previous accountant is strained, as evidenced by:
  - regular disagreements with the current or former accountant on matters relating to reporting or auditing;
  - unreasonable demands in respect of the accountant, such as impossible schedules for conducting the audit or for issuing the auditor's report;
  - restrictions imposed on the accountant that inappropriately limit access to persons or to information or the ability to communicate effectively with persons charged with governance;
  - overbearing behaviour on the part of management in its dealings with the accountant, particularly attempts to influence the scope of the audit work or to influence the selection and retention of persons assigned to the assignment, or persons deployed for advisory purposes in connection with the audit.

3. Risk factors related to misappropriation of assets

The risk factors related to misstatements arising from asset misappropriation are also grouped according to the three circumstances that are usually present when fraud occurs:

1. motives/pressures;
2. opportunity and;
3. rationalisation.

Some risk factors related to misstatements due to fraudulent financial reporting may also be present when misappropriation of assets occurs. For example, misstatements resulting from fraudulent financial reporting or asset misappropriation may lead to ineffective monitoring of management and other shortcomings in the internal control set-up. The examples below are typical risk factors related to misstatements resulting from asset misappropriation.

Motives/pressure
Personal financial obligations (e.g., due to bad investments, divorce, addictions) may put pressure on management or staff members who have access to cash or other similar assets and lead to them misappropriating those assets. A poor relationship between the entity and staff members who have access to cash or other assets that are easy to steal may tempt them to misappropriate those assets. A poor relationship may be caused by:
- employee lay-offs that have been announced or that are expected in the future;
- recent or expected changes in employee remuneration or promised retirement benefits;
- internal promotions, pay or other rewards that differ from what was expected.

Opportunity
Some characteristics or circumstances may increase the likelihood of asset misappropriation. For example, greater opportunity for theft arises in the following situations:
- large amounts of cash on hand or large cash movements;
- stock items that are small in size but high in value or for which there is high demand;
- assets that can easily be converted into cash, such as bearer securities, diamonds, precious metals, or computer chips, mobile phones, laptops, liquor, cigarettes, drugs, bearer shares, negotiable instruments;
- fixed assets that are small in size and easy to sell or whose owner is not clearly identified;
- marketable information (e.g. patents, copyright, development plans, price-sensitive information).

Inadequate internal controls for assets can make those assets more susceptible to misappropriation. For example, assets may be misappropriated because the following factors exist:
- inadequate segregation of duties or inadequate independent checks;
- inadequate supervisions of senior management's expenses, such as reimbursement of travel costs and other expenses;
- inadequate supervision exercised by management over employees responsible for assets, such as inadequate supervision or monitoring of remote branch offices;
- inadequate screening of job applicants who are granted access to assets after recruitment;
- inadequate records related to assets;
- an inadequate system for authorising and approving transactions (procurement transactions for example);

- inadequate physical security measures for cash, investments, securities or fixed assets;
- the lack of a complete and timely reconciliation of assets;
- the lack of timely and adequate documentation for transactions, for example, crediting returned goods;
- no mandatory vacation for employees in key positions within the internal control system;
- inadequate knowledge of information technology on the part of management, which allows IT staff to misappropriate assets;
- inadequate access security measures for computerised records, including internal control measures related to computer system logs and their assessment.

Rationalisation
- ignoring the need to monitor or mitigate risks related to asset misappropriation;
- disregarding internal controls with respect to asset misappropriation by breaching existing internal controls or failing to take appropriate corrective action with regard to known internal control weaknesses;
- behaviour that demonstrates dissatisfaction or disagreement with the entity or with the way it treats its employees;
- changes in behaviour or lifestyle that may be indicative of asset misappropriation;
- tolerating petty theft.

Appendix 2:
Definitions/Further clarification

Accountant a chartered accountant or an accounting consultant. The term accountant is also used to refer to an accounting firm. In these recommendations, the term accountant refers to the accountant who audits the organisation's annual accounts, or issues a compilation report in connection with them. An accountant may be an accountant in business, a government accountant, an internal accountant or a forensic accountant.

Business integrity acting within the framework of laws and regulations with inventive use of professional expertise. A characteristic of an organisation with high business integrity is that it acts to prevent conflicts of interest, corruption, fraud, violations of the law and/or other acts that are socially undesirable.

Changes in accounting policies (Chapter 10) the organisation chooses to change a previously selected accounting policy. One or more accounting principles for measuring assets and liabilities and determining the result differ from those used in the preparation of prior annual accounts. The Dutch Accounting Standard Board has further elaborated on (the processing approach for) changes to accounting policies in Guideline 140.

Confidential adviser a person within an organisation, to whom employees can report confidential matters, such as malpractice and violations of the integrity standards. The confidential adviser can also address and prevent undesirable behaviour such as bullying, harassment and discrimination in the workplace. Integrity, anonymity (if desired) and confidentiality are key elements of this arrangement. Employees must be able to contact the confidential adviser without putting themselves at risk.

Conflict of interest a situation where a person serves multiple interests and where these interests conflict or may conflict and are incompatible with each other. These interests may be either business-related and private interests, or a mixture of the two. Conflicts of interest impair independence and threaten integrity. A conflict of interest is a (possible) manifestation of corruption.

Corruption a manifestation of fraud. We speak of corruption when a person abuses his or her position for personal or business profit. In addition to bribery, corruption includes extortion and undue influence (e.g. due to a conflict of interest). It does not matter whether the recipient, extortionist or instigator of the bribe is a public official, politician or private person. The definition also includes laundering the proceeds resulting from corruption.

Cyber fraud a criminal way of making money on the Internet, or online by other means, at the expense of people or organisations. Because IT technology is important to and has an increasing impact on (business) life and society, cyber fraud is increasingly profitable. Unfortunately, this form of fraud can result in extensive damage.

Director a director of an organisation, appointed in accordance with the articles of association, who solely or together with others constitutes the managing authority of the organisation.

Diversity the variety of the people within one organisation. This does not just relate to differences in gender and culture, but also, for example, to age and knowledge.

Error correction the correction of material errors in the annual accounts, as a result of which the annual accounts fail to provide an accurate representation as referred to in Section 362, paragraph 1 of Book 2, of the Dutch Civil Code. The Dutch Accounting Standard Board has further elaborated on error recovery in Guideline 150.

Estimates (Chapter 10) the organisation estimates the size of, for example, an item in the annual accounts to the best of its ability, taking into account all the relevant information available. Uncertainties make estimates necessary. A previously made estimate may need to be revised. This may be called for due to changes in the circumstances on which the estimate is based, or due to the availability of new information. This leads to an amendment of the estimate. The Dutch Accounting Standard Board has further elaborated on (the processing approach for) amendments to estimates in Guideline 145.

Ethical behaviour acting in accordance with the values and standards by which we reasonably consider ourselves and others to be bound. Acting ethically is more than abiding by the law. What is right and what is wrong? And who determines that?

External accountant a natural person who is employed by or associated with an accountancy organisation and who is responsible for carrying out a (statutory) audit of the annual accounts. In the context of these recommendations, it may also refer to the accountant who performs a non-statutory audit of the annual accounts, or issues a composition statement relative to the annual accounts.

Forensic accountant a specialised accountant who engages in investigations in the context of a suspicion of fraud, non-compliance with laws and regulations and/or in the context of a dispute settlement. An investigation of this type often precedes subsequent legal action under criminal law or civil law.

Fraud an intentional act by one or more members of management, the supervisory body, employees or third parties, using deception to obtain an unlawful advantage. Fraud occurs in many forms. This brochure refers principally to professional fraud, of which the main manifestations are misappropriation of assets, fraud in the financial accounts and corruption.

Fraud disclosure desk everyone in the organisation must know where, and how - e.g. verbally or by telephone/letter/email - they can report a case of suspected fraud. Details of the fraud disclosure desk are provided in the internal code of conduct and/or the company regulations.

Fraud response plan a kind of roadmap indicating how the board and supervisory body should act in a case of suspected fraud. When fraud is committed, a fraud response plan helps the organisation act appropriately and expeditiously to minimise damage to the organisation, in all its forms.

Fraud risk assessment the activities aimed at gaining a good understanding of the organisation and its environment, including its internal controls, to identify potential fraud risks. The assessment looks at the nature, scope and frequency of a potential fraud risk to evaluate the likelihood that it will actually occur.

Fraud risk management the internal control measures should be appropriate within the organisation and effective in preventing and detecting the fraud risks identified via the fraud risk assessment in a timely manner. The primary responsibility for the prevention and timely detection of fraud rests with the organisation's supervisory body and board. The board, under the oversight of the supervisory body, must imperatively assign a high importance to preventing fraud, as this reduces the opportunities for committing fraud, and also discourages it, acting as a deterrent that makes individuals think twice about committing fraud because of the likelihood of detection and punishment.

Fraud, suspicion of examples of fraud risk factors that may lead to a suspicion of fraud are discussed in detail in Appendix 2. Through your own alertness, you can also recognise signs that point to possible fraud.

Fraud triangle a theory developed by the criminologist Donald Cressey (1953), which assumes that fraud requires three elements: pressure, opportunity and rationalisation. A fraudster experiences pressure or is motivated to commit fraud, considers himself capable of committing fraud based on the authorities of his position (opportunity) and justifies his intended fraud to himself (rationalisation).

Internal auditor a natural person, often also an accountant, who is employed by the organisation and professionally assesses the extent to which his organisation succeeds in controlling the business process and the associated risks. The internal auditor helps an organisation achieve its goals by evaluating and improving the effectiveness of the governance, risk management and control processes based on a systematic and disciplined approach.

Internal code of conduct an internal code of conduct clarifies what is expected of everyone in the organisation, what can be expected of the organisation and what behaviour is and is not accepted. If the standards and values are clear to everyone, discussions are avoided and this clarity contributes to a better working atmosphere. An internal code of conduct can never make provision for every conceivable situation, so it calls for responsible, confidential, transparent, fair and impartial action on the part of employees. Integrity only really becomes tangible in daily practice and in the conversations you have with each other about it.

Internal control set-up comprises the complete set of control measures to ensure achievement of the (strategic) objectives set by the organisation, within the defined preconditions such as cost levels, and observance of the agreements in effect and the valid procedures (compliance). The internal control set-up comprises:
- the internal control system itself: what control measures are in place to manage the organisation as a whole?
- the content of the control system: the quality of the various control measures that are intended to guarantee that objectives and standards are achieved.

Organisation in this document we have used the term "organisation" for the sake of simplicity. It is synonymous with, for example, enterprise, non-profit organisation, institution, entity, etc.

Privacy law Article 10 of the Constitution provides for the right to privacy: 'Everyone has the right to respect for his privacy, subject to limitations imposed by or pursuant to the law.' Other legislation contains rules about what can and cannot be done in the context of privacy. The most important one is the General Data Protection Regulation (Algemene Verordening Gegevensbescherming/AVG), which is in force throughout the EU and applies to all organisations that record the personal data of customers, staff or other people in the EU. In the Netherlands, the Data Protection Authority (Autoriteit Persoonsgegevens/AP) supervises compliance with the legal rules for the protection of personal data.

Reporting obligation the obligation under laws or regulations to report an event, a transaction or possibly relevant non-compliance with laws and regulations to a specific authority. This also includes drawing up an internal report or issuing an alert if a specific situation arises, based on a code of conduct.

Supervisory body the supervisory body of an organisation, such as the Supervisory Board or the Board of Trustees. In this brochure, the term governance body refers to the supervisory body of an organisation, regardless of its actual designation. In practice, there are other types of body that either have a different role or are formalised differently or not at all. For example, the Advisory Board, which is not a (formal) supervisory body but has an advisory or sounding board function, the shareholders or a selection thereof (e.g. board members of a trust office foundation) or other types. Putting together recommendations for these rather different bodies extends beyond the scope of this brochure. We recommend that organisations with bodies of this type incorporate the recommendations as they see fit within their own structures.

Supervisory director oversees an organisation's policies and implementation of policies on behalf of shareholders and the stakeholder. A supervisory director is a member of the organisation's supervisory body.

Tone at the top is the behaviour and attitude of top management, including the board and supervisory body of an organisation, which focuses on setting a good example.

Whistleblower policy a whistleblower exposes malpractice in an organisation. Employers with a workforce of 50 or more must set up a procedure for reporting (suspected) malpractice in the employer's organisation. The obligation to have an internal whistleblower policy referred to here is part of the Dutch Whistleblowers (Authority) Act (Wet Huis voor Klokkenluiders) and its purpose is to improve the conditions for reporting social malpractice within organisations, by facilitating the investigation of malpractice and providing for better protection of whistleblowers. Your whistleblower policy describes how you deal with reports of suspected malpractice within your organisation. In the near future, the Dutch Whistleblowers (Authority) Act (Wet Huis voor Klokkenluiders) will be replaced by the Whistleblower Protection Act (Wet bescherming klokkenluiders). EU member states are required to implement European Directive 2019/1937 by December 21, 2021. In the Netherlands, this legislation is put into effect via the Whistleblower Protection Act.

Works Council organisations with a workforce of 50 employees or more must have a works council (WoCo). A WoCo is an employee participation and co-determination body within an organisation and its members are employees who consult with the employer on behalf of the staff about company policy and employee interests. The Works Councils Act (Wet op de ondernemingsraden) establishes the rights and duties of the Works Council.

Zero tolerance policy involves an approach where even the smallest offence leads to (harsh) punishment.

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