



Change agenda

Audit

Fraud

This is an English translation of the original Dutch text, translated for convenience only. In the event of any conflict between this translation and the original Dutch text, the latter prevails.

Report

Exploratory root cause analysis into fraud

Fraud requires a more critical attitude

- More critical professional attitude needed
- Insufficient knowledge and quality concerning fraud
- Point out that parties in the chain take their primary responsibility for preventing, detecting and tackling fraud

This document contains bookmarks and hyperlinks.

 Adobe Acrobat bookmarks - key combination "Ctrl-b"

 text is an internal document link or external hyperlink



About this publication

This document is a publication of the Royal Netherlands Institute of Chartered Accountants (Koninklijke NBA). The content of the exploratory root cause analysis has been created at the initiative of the Public Interest Steering Committee.

This publication has been compiled for members and third parties. The publication has no status in the context of professional practice, but it can be referred to publications that do have such a status.

© 2022

Nothing in this publication may be reproduced, stored in a computerised database or published in any way, shape or form without prior written permission.

Contents

1.	Foreword Rob Bergmans4 <i>Let's first focus on the performance gap</i>
2.	Foreword Wim Bartels6 <i>Sharing and openness will help us when detecting fraud</i>
3.	Summary report8 <i>The role of accountants, good practises and root causes</i>
4.	Background and structure exploratory analysis9 <i>Fraud can result in material misstatements</i>
5.	Context for fraud10 <i>Focus on fraud and fraud risks throughout the chain</i>
6.	Lessons and good practices12 <i>From professional support to structured root cause analyses</i>
7.	Main themes and causes14 <i>Causes at individual, team, audit firm and eco-system</i>
8.	Potential interventions20 <i>From six themes to fraud interventions</i>
9.	Afterword Kris Douma22 <i>Fraud must be at the heart of the accountants role</i>
	About the Fraud working group and the NBA Team for the Exploratory root cause analysis into fraud24

1. Foreword Rob Bergmans

Let's first focus on the performance gap

If fraud is not discovered by accountants, we see that this - justifiably as far as I am concerned - leads to public indignation about why accountants failed to notice it. And the newspaper headlines are merciless. After all, accountants are responsible for making sure that annual accounts give a true and fair view of reality, and comply with accounting standards. Fraud undermines that.

Naturally, it is very important to realise that we are reliant on the various parties in the chain. But we also have to contend with an expectation gap. So we must certainly call for the chain to be reinforced. But the main aim of this analysis is to focus on the performance gap, because it is a genuine factor.

Also in Auditing standards

We cannot say that fraud has no place in our portfolio or that we are not equipped to trace fraud. Naturally, management at the concerned entities should mainly be held responsible for any fraud that takes place. However, accountants can be expected to maximise the likelihood of detection. This requires improved knowledge about fraud risks and how they arise in specific sectors and entities. But it also requires extensive knowledge about the client. So not a single detail should escape your attention. This is where accountants can improve their knowledge via education.

In this case, I also refer to the Nadere voorschriften controle- en overige standaarden (Detailed instructions for auditing and other standards, NV COS), which clearly stipulate that we must do everything in our power to detect fraud. Also feel free to read **the Handleiding Regelgeving Accountancy** (Accountancy Regulations Handbook). We are thus responsible for detecting fraud. This is a fact that we cannot, and should not try to, avoid. It lies at the heart of our profession, and that is also how we should view it.



Let's rise to the challenge as accountants. This report offers many useful recommendations for doing so.



Performance gap

That is why we must primarily focus on the performance gap. Public expectations, when it comes to detecting fraud, are not too high, but our performance as accountants does not match what people expect of us. Of course, we can point the finger at society, but this makes little sense. I believe it will be a lot better for us to focus our energy on actions that will allow us to effectively improve when it comes to detecting fraud risks, fraud signals and actual fraud. Complaining about the expectations being too high is pointless, and just a waste of energy. Let's rise to the challenge as accountants. This report offers many useful recommendations for doing so.

Better insight

I am the sponsor for the Fraud working group within the Public Interest Steering Committee at NBA. In other words, I am the linking pin for the Steering Committee. The Fraud working group has spent many years trying to gain an effective insight into how accountants must, and can, deal with fraud, and has also launched initiatives to achieve this. This exploratory report, which is a root cause analysis into fraud, gives us a better idea about why fraud is sometimes overlooked. It helps us to take specific extra steps to get a better insight into fraud.

I should also mention that although substantive and detailed testing are a good thing, they should not be implemented without also considering ineffectiveness and gaps in the process. For example, gaps in the control environment and internal control monitoring. How can you manage fraud risks more effectively? And where are the main risks in a specific sector or entity? In short, accountants should not think that substantive and detailed testing is the solution for everything. Be familiar with the effectiveness of your client's internal organisation, so that you can improve detection of fraud in the audit approach. This will also offer added value to the entity in question.

Learning from one another

From the Public Interest Steering Committee, and on behalf of all accountants, I would like to thank everyone that helped to realise this report. Twelve audit firms were very transparent and openly shared their experiences with fraud and detecting fraud risks. They did this for the greater good, namely allowing accountants to improve their audit approach towards detecting fraud. Their willingness - to share this information - shows that we can learn a lot from one another when it comes to detecting fraud. As far as I am concerned, this must become a permanent area of attention with the NBA. In addition, if accountants witness something that is unfamiliar, we must also work with specialists from our audit firms more often. ICT specialists, for instance, but also forensic auditors. But this does not absolve us of our own responsibility, that starts with curiosity. Like an investigative journalist that wants to know the finest of all details. Ask questions, like why is this item reported in this manner? Why has an entity 30 percent margin instead of 20 percent, like others in the sector? This curiosity will take us to the quality level that we want to achieve.

Rob Bergmans, Managing Partner Audit & Assurance Deloitte and sponsor of the Fraud working group on behalf of the Public Interest Steering Committee.



2. Foreword Wim Bartels

Sharing and openness will help us when detecting fraud

No fewer than twelve audit firms - ranging from small to large - and countless experts in the field of fraud took part in this exploratory root cause analysis into fraud. They were very committed to the investigation, partly in the knowledge that failure to detect fraud has a massive impact on the image of the accounting profession. If you cannot trust an accountant, then who can you trust - that's what people are asking themselves. And that is actually the crux of the matter. No matter what, stakeholders must be able to rely on annual accounts giving a true and fair view of reality. And fraud undermines efforts in this regard. The idea was for the twelve audit firms to use their experience and expertise in the field of fraud to offer an effective insight into the main reasons why fraud, fraud signals and fraud risks are overlooked. And that is exactly what happened. This report is thus a reflection of their findings. These findings were also evaluated within a broad group of stakeholders, including NBA-experts, the Accountancy Programme Learning Outcomes Committee (CEA), the Expert group, the Dutch Quartermasters and the Dutch Authority for the Financial Markets (AFM).

Recognisable and inspirational

We were able to create a confidential environment for sharing experiences in this sensitive area. No one enjoys admitting that they overlooked a case of fraud when auditing annual accounts. It is not something you are proud of. However, at the same time, such openness is ever so important. Not only in order to do things properly the next time, but also so that accountants can learn from other accountants and organisations can learn from other organisations. As a result, the conversations were both recognisable and inspirational. People were willing to share, and this really brought the cases to life. One audit firm, which thought that a certain type of fraud did not take place among its clients, was left scratching its head. Perhaps we have overlooked something? How can we improve our approach to detection? We were able to supplement the firms experiences using cases that have been collected by the NBA over the years. And by doing so, we were able to quickly gain an insight into almost twenty causes that can be attributed to the main reasons mentioned in this report.

More knowledge about fraud risks

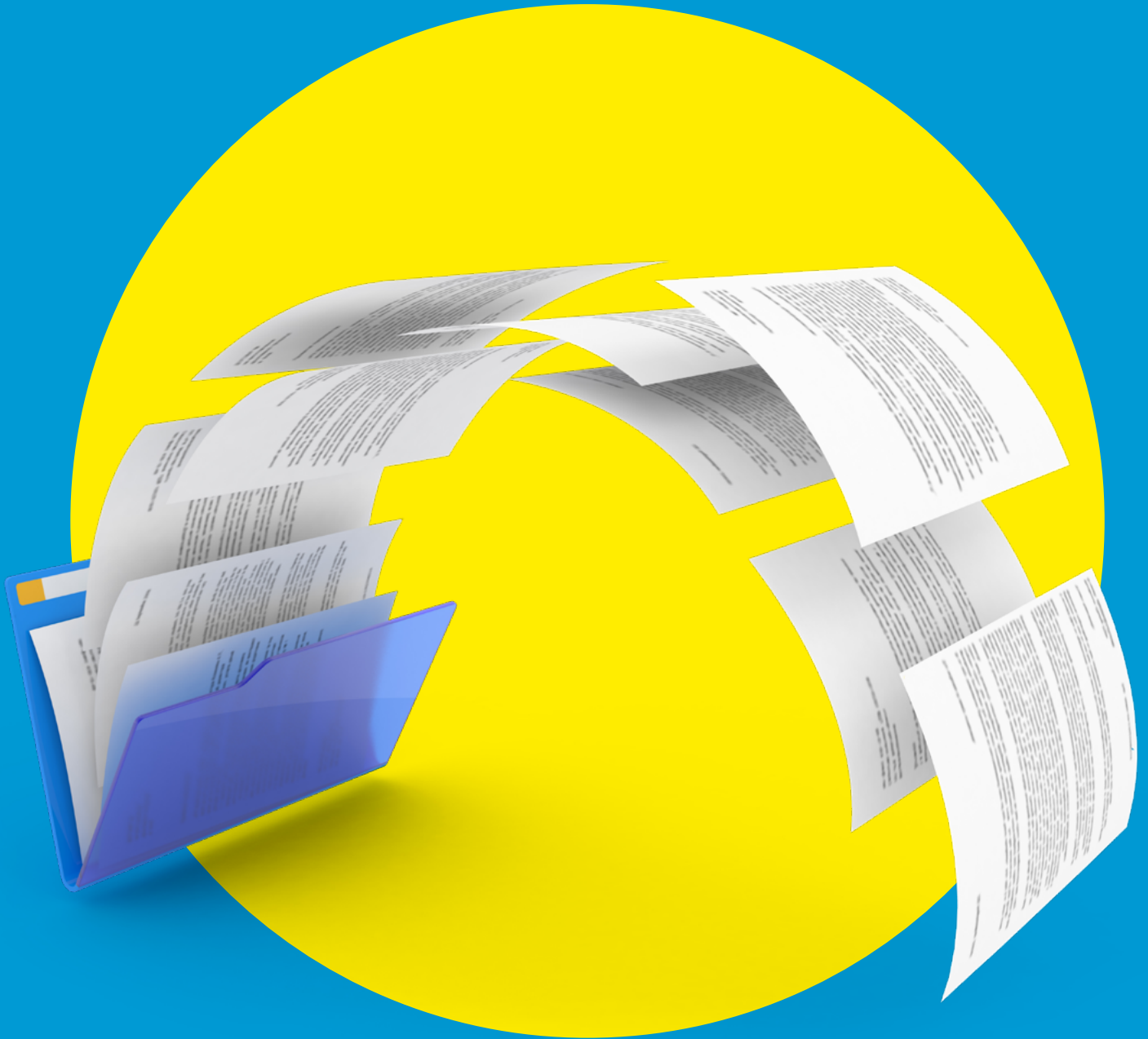
The one that stands out for me, is that accountants must gain more knowledge about fraud risks at their clients based on the business activities, and must also react accordingly. Possibly with expertise from the audit firm about how fraud is controlled. In any case, it's not as if accountants are doing a bad job or have been asleep for the past few years. That certainly is not the case. However, we must do more to realise that fraud - even though it rarely occurs - can have a major impact; on the client, the audit firm and all stakeholders. So we have to, and be willing to, expose fraud. And in no uncertain terms too. The good practices in this report show that steps have been taken by audit firms, using a variety of audit approaches. Thanks to this report, they can take a look behind the scenes at each other's organisation. Assisted in this regard by the professional association. We must create an open and safe environment within the NBA for sharing fraud-related experiences with one another. From colleague to colleague; from audit firm to audit firm.

The way forward

Besides showing areas in which we can improve, the report also shows the way forward. Because the thought process does not end with this report; this is merely the beginning. To what extent do I have a critical professional attitude towards my client? Do I dare to speak out as accountant? And to escalate matters if necessary? If accountants do not do this, who will? This means they have to dig deeper for the truth when working at clients. Is the business model appropriate? What does it actually involve? Such questions came up during the discussions. In order to discover fraud signals, it is important to ask more in-depth questions rather than just accepting the information presented by the client. In that sense, the detailed discussions about fraud helped to improve knowledge about fraud and fraud signals. Thanks to such discussions, there is increasing awareness that a problem arises when such fraud is not detected. In short, the good practices and lessons in this report are a good starting point for taking further steps. Because when it comes to fraud, we will never have enough eye openers.

Wim Bartels, external advisor for exploratory root cause analysis into fraud





*Sharing and openness will help
us when detecting fraud*



3. Summary report

The role of accountants, good practises and root causes

The Public Interest Steering Committee, which is a collaboration between representatives from licensed audit firms and The Royal Netherlands Institute of Chartered Accountants (NBA), was asked by the Dutch Quartermasters to conduct an exploratory analysis into the root causes of fraud and fraud risks.

In total, representatives from twelve audit firms took part in the exploratory phase of the root cause analysis.

Role of the accountant

According to the participants, it is the role of accountants to:

- Pay attention to the clients fraud analysis and monitoring system in order to increase preventing, detecting and tackling fraud within the entity.
- Perform the risk analysis and audit in a manner that obtains reasonable assurance that the financial statements, taken as a whole, are free from material misstatement due to fraud (and errors).
- Adequately follow up fraud signals. And, in case of immaterial fraud, to correctly assess whether it is in fact an isolated immaterial fraud or whether there are indications of material misstatements due to fraud in reporting that require adequate follow-up.

Good practices

We cannot say that nothing at all has been done in recent years. Our exploratory analysis has identified many good practices, which have been included in chapter 6: Lessons and good practices. These good practices can serve as a framework for further measures. This will allow the sector to intensify its focus on fraud.

What causes fraud and fraud risks to be overlooked?

The causes relate to the role of individuals, teams and audit firms, as well as the role of the chain:

- Insufficient awareness of the accountant's public 'fraud detection role';
- An insufficiently critical professional attitude;
- Insufficient knowledge within practice about what fraud actually entails;
- Insufficient quality in fraud risk assessment, approach and execution;
- Other interests take precedence over the required critical professional attitude;
- Focus on fraud is not embedded into an integral approach and follow-up;
- The role and responsibility, to effectively prevent, detect and tackle fraud, is not always felt by parties in the chain.

Relationship

This document also addresses the relationship with causes mentioned in the **Rapport oorzakenanalyse Continuïteit** (Report about Root cause analysis into going concern). There appear to be similarities with the **going concern** root cause analysis when it comes the role of the teams, individuals and audit firms, as well as chain-based responsibility (see chapter 7: main themes and causes).



4. Background and structure exploratory analysis

Fraud can result in material misstatements

Reasonable degree of certainty

The exploratory root cause analysis precedes an extensive and in-depth study by the Foundation for Auditing Research under the leadership of prof.dr. Jan Bouwens.

Structure exploratory phase 1

Who took part?

The exploratory phase was carried out by NBA. The NBA asked all PIE audit firms and several non-PIE audit firms to take part, based on their size and/or involvement in the Fraud working group.

In total, representatives from twelve audit firms participated. The representatives address fraud risks as part of their role in the professional expertise, forensic expertise or compliance departments, or as part of their responsibility to perform root causes analyses at their respective audit firms.

What was the approach?

The analysis involved requesting and analysing documentation about the root cause analyses of audit firms (if available), interviews with representatives of PIE audit firms, and meetings with PIE and non-PIE audit firms. During the meetings, participants used among others a fraud case from their firm to identify the causes and to rank causes based on their perceived importance.

Follow-up steps and reporting

The results of this phase 1 exploratory analysis were shared with everyone that participated in the study, and then with the Public Interest Steering Committee and the Non-PIE Platform. During a work session with participants, the NBA and CEA, we worked together to translate themes from the root cause analysis into interventions. Under the leadership of the Public Interest Steering Committee, and in collaboration with the NBA, it will be the role of the Fraud working group to incorporate everything into the NBA fraud agenda for 2022 and beyond.

We handed over and discussed the final report with the Dutch Authority for the Financial Markets, the Expert group and the Dutch Quartermasters. The findings can serve as input for the phase two study of the Foundation for Auditing Research, under the leadership of prof. dr. Jan Bouwens.



5. Context for fraud

Focus on fraud and fraud risks throughout the chain

In which context must we view our exploratory analysis? What do accountants have to do with fraud and fraud risks? This chapter serves as a precursor to the lessons and good practices in the following chapter.

Hidden collusion

Fraud (which includes corruption) is always concealed and goes hand-in-hand with collusion. This means that not all fraud can be discovered (on time) by accountants or by the entity itself. In practice, most fraud is revealed thanks to reports from within the entities themselves. Such reports are sometimes made by whistleblowers. In other cases, via employees from the audited entity who, unlike the accountant, are involved in the day-to-day running of the entity and witness eye-catching transitions first-hand. In a limited number of cases, fraud is detected afterwards during audits.

Parties in the chain

When preventing fraud and recognising fraud risks, it is important for all parties in the chain to pay attention to (the risks of) fraud and to take measures to prevent, detect and tackle it. First and foremost, this applies to the entities - including internal accountants, management and those charged with governance - which are primarily responsible. They have the biggest interest in recognising and responding adequately to fraud. But it also applies to preparers of reporting regulations, audit firms, the professional association (NBA) and the supervisory authority.

Limited cases of fraud, but with a major social impact

Accountants perform approximately twenty thousand statutory audits each year in the Netherlands. Based on what we heard from participants, the number of (suspected) fraud cases is very limited. As one would expect from effective governance, most cases of fraud are identified and corrected within the entities themselves. The practical experience of participants (in the analysis) shows that

most of the fraud reported by audit teams is immaterial to the annual accounts, taken as a whole. Nonetheless, fraud still attracts regular attention from the media and society alike. This is partly due to the impact that fraud has on society's confidence in the concerned entities and the work of the accountant.

Increase likelihood of discovery

With this context in mind, and in keeping with standard **200** and **240**, the role of the accountant is to:

- Pay attention to the clients fraud analysis and monitoring system in order to increase preventing, detecting and tackling fraud within the entity.
- Perform the risk analysis and audit in a manner that obtains reasonable assurance that the financial statements, taken as a whole, are free from material misstatement due to fraud (and errors).
- Adequately follow up fraud signals. And, in case of immaterial fraud, to correctly assess whether it is in fact an isolated immaterial fraud or whether there are indications of material misstatements due to fraud in reporting that require adequate follow-up.

Besides correctly applying auditing standards when conducting an audit, accountants must also show the required professional judgement.

Differences between PIE and non-PIE

During the analysis, there appeared to be differences between PIE and non-PIE audit firms when it came to fraud and fraud risks. They relate to the impact that fraud has in the media and public opinion. A non-PIE accountant often has a more direct relationship with the client, whereby it is also possible to intervene more directly in



case of unethical behaviour. The client is also more likely to have a weaker administrative process organisation and internal control system. The analysis showed certain issues were also corrected during the audit, or were not taken into account in the number of suspected cases of fraud. For example, corrections in reporting which do not always involve deliberate wrongdoing. At this moment in time, it is not clear how many cases of suspected fraud accountants are dealing with. However, it will be possible to identify this in the future thanks to the intended Audit Quality Indicators.

Relationship with other topics

Root cause analyses have become more commonplace in recent years. For example, following reviews by the supervisory authority. Fraud was viewed as an isolated factor during this exploratory analysis. However, based on the discussions, as well as the comparison with **the root causes analysis for going concern**, it became apparent that there is a certain overlap between the various areas. It would be desirable and valuable to view all the causes together when setting the agenda for further improvements.

Explanation of findings

It is worth mentioning that the causes referred to in this analysis relate specifically to situations where fraud and fraud risks were signalled late or not at all. As a result, they don't say anything about the general knowledge, attitude or behaviour of 'the accountant', so we cannot generalise about them. The findings of this exploratory analysis are based on limited research, in terms of scope (twelve participating audit firms) as well as depth (mainly interviews and conversations, and no reviews of audit files). We regard the findings as the professional assessments of individual participants based on their (long-standing) experience. As a result, they do not necessarily reflect the point of views of the audit firms.

*Fraud is always concealed,
which means that not all fraud
can be discovered (on time) by
accountants or by the entity itself.*



6. Lessons and good practices

From professional support to structured root cause analyses

From professional support to structured root cause analyses. What are audit firms already doing and where can they learn from one another?

Partly driven by external and public attention to fraud and fraud risks, accountants have increased their focus on fraud in various ways in recent years. When doing so, the attention has, on the one hand, shifted from resolution in the team, to organisational and specialised support. On the other hand, a cause-driven approach - possibly with a root cause analysis afterwards - is increasingly being converted into preventive measures aimed at better equipping accountants in audit firms. The extent to which these preventive measures have been developed differs per audit firm. For instance, the use of forensic expertise and audit support is not yet available in all PIE and non-PIE audit firms.

Good practices

Our exploratory analysis features many good practices. The overview below contains several commonly-mentioned or specific actions that audit firms have taken over the past few years. Some actions relate to engagement level, while others relate to audit firm level.

1. Good practices at case level

Professional support

(fraud desk, incident-driven root cause analysis, audit support)

Most audit firms have organised professional support during engagements. This ranges from case-related research to a fraud panel. A fraud panel offers knowledge and support to accountants in practice, in order to discuss suspicions and indications of fraud and to support the audit team; to share experiences from other cases and to perform analyses on (settled) cases.

Compulsory consultation/fraud desk

The introduction of compulsory consultation helps audit firms to centralise relevant cases wherever possible and to offer effective support. Compulsory consultation has not been introduced by all audit firms. There are different versions; some involve supporting and relieving audit teams, and even accompanying in a visit to the client. Other versions only offer advice, while leaving responsibility primarily with the audit team.

Audit support

Several audit firms use forensic expertise to challenge audit teams during the risk analysis phase. And/or to support the team when performing the audit. Forensic research also takes place if fraud is suspected. Audit support from forensic expertise can also be useful during particular audit activities. In the Netherlands, limited forensic expertise is available. Therefore, audit support with forensic expertise is not a solution that can be effective in general.

2. Overarching good practices at organisation and governance level

Integration in education

Audit firms pay attention to fraud and fraud risks in various ways during internal training. This normally takes place in the form of specific sessions during conferences, where accountants follow internal education on quality assurance.

Easy to report (suspected) fraud

The importance of making it easy to report (suspected) fraud was regularly mentioned during the exploratory analysis. A few audit firms mentioned their efforts to re-



duce potential obstacles and reward people that submit reports. For example, by paying explicit attention to it in internal communication or giving auditors, who have encountered a case of fraud, the opportunity to speak and share their experiences.

Appropriate support and incentives from the audit firm

When it comes to acknowledging reports, accountants also mentioned the need to remove incentives that could hinder reporting. For example, this relates to extra non-declarable hours when reporting fraud or suspected fraud. In addition, the issue of insufficient capacity was also raised. A few participants also emphasised the importance of support from policy-makers, the tone at the top. In case of incidents, it is important for individuals to feel supported within the audit firm and by the board, instead of having to deal with everything by themselves. This support could extend as far as policy-makers personally getting involved in cases if there are tensions with the client, and being willing to terminate relationships with clients.

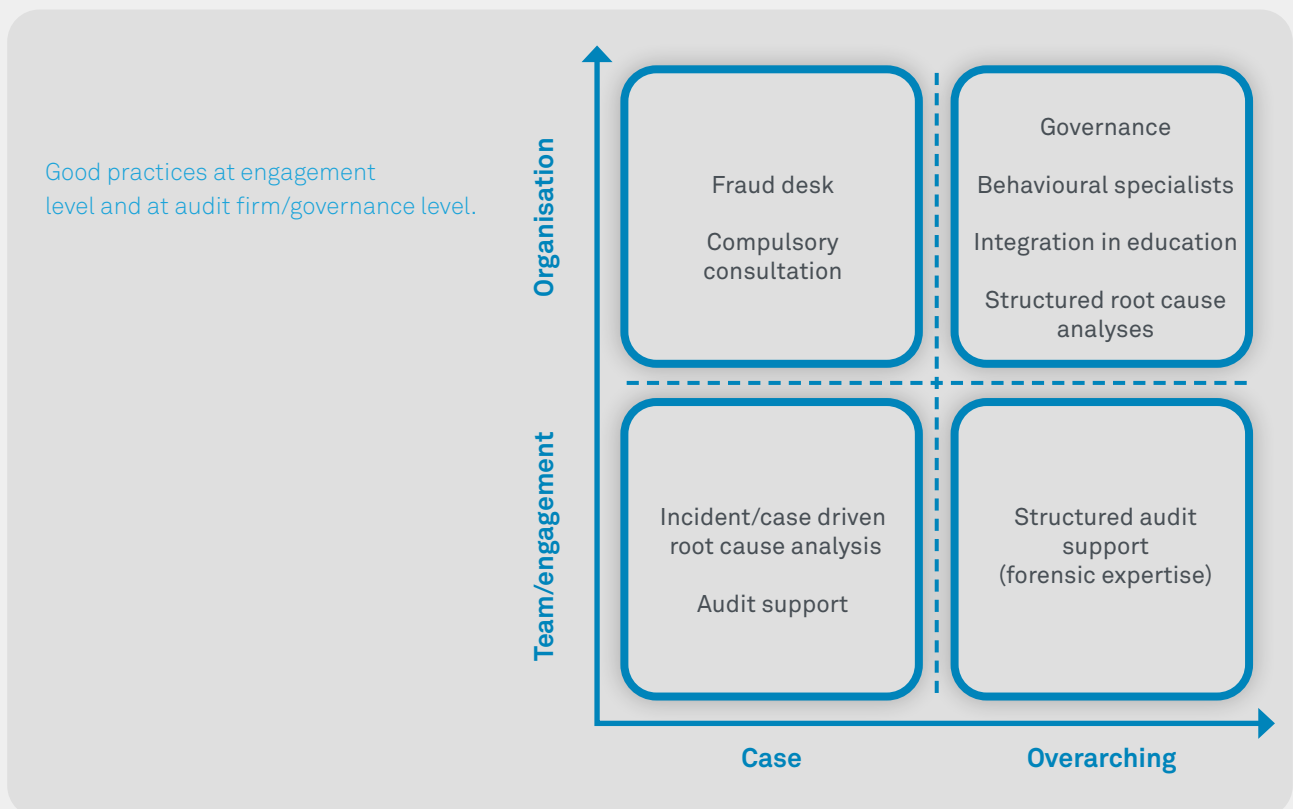
3 Good practices from root cause analyses

Central collection of case material and sharing findings

Central collection and handling of cases ensures that audit firms can collect causes and share them throughout the whole accounting practice. For example, via newsletters, specific fraud training, discussions during regular meetings or via intranet. This central analysis is not in place at all audit firms.

Regular root cause analyses

A few audit firms perform root cause analyses on a more structural basis. This can also contain a more content-related, professional and behavioural component. One of the participants used behavioural specialists, which mainly resulted in greater focus on things such as team dynamics and professional scepticism. Another one of the participants used an external agency to perform structural root cause analyses into how fraud is addressed during audits and in a particular market sector. This audit firm possesses a special team that is able to perform such root cause analyses on a continuous basis.



7. Main themes and causes

Causes at individual, team, audit firm and eco-system

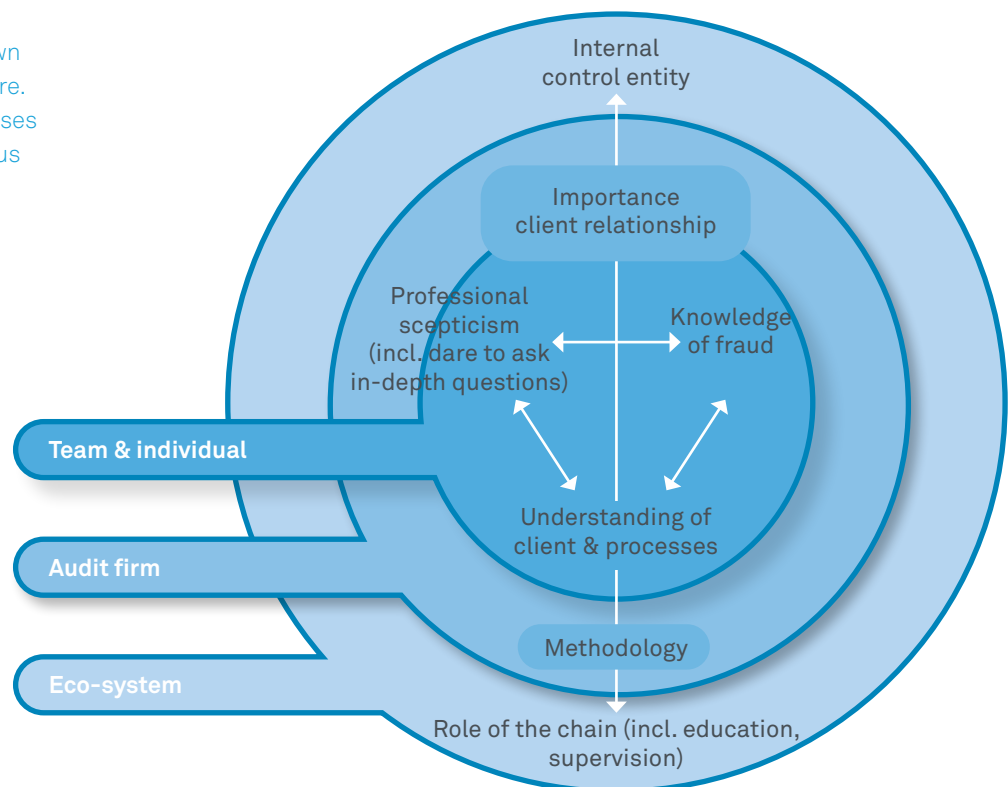
This chapter explains what causes fraud or fraud risks to be overlooked. These causes can be found at individual, team and audit firm level. In addition, a role is also played by the eco-system, or the chain in which the accountant operates.

The causes and themes encountered when addressing (suspected) fraud are shown in the various layers of the whole system. The effects have been specifically described for situations where the accountant does not discover or follow up fraud, or fails to do so on time. The importance of the client relationship plays a role at team level as well as audit firm level, and is shown overlapping.

1. An insufficiently critical professional attitude

Accountants play an important public role when it comes to fraud. Are they sufficiently aware of this? If accountants are to signal and address material misstatements due to fraud, they must possess specific qualities as well as a critical attitude. The quality with which tasks are

The main causes are shown in the accompanying figure. The figure shows that causes are always related and thus never stand alone.



carried out can vary, and may be determined by personal inclination, intrinsic motivation or the accountant's affinity with the theme. Stronger or weaker inclination, affinity and intrinsic motivation has an effect on people's competencies, knowledge, skills, fear and insecurity when addressing (suspected) fraud. In this case, the participants acknowledge the role of individual accountants and team dynamics.

Critical attitude not always visible

Accountants and audit teams are expected to have a critical professional attitude towards fraud risks, fraud signals and impact on the performance of audits. This is something that accountants do not always live up to in practice. This means that - depending on their inclination, affinity and motivation - accountants and audit teams:

- do not always (dare to) ask the 'why' or 'I do not understand' question;
- do not always ask detailed questions, validate or reflect;
- partly due to biases, are insufficiently aware of fraud signals or try to rationalise them;
- are not always able to resist inherent tensions and pressure that can occur during the audit process, whether it is exercised by the client, in the team or by the audit firm. As a result, they may prioritise other interests above the required quality.

Team dynamics

Team dynamics can also play a role in, and have an impact on, the accountant's critical professional attitude when performing the audit. For example, due to:

- not enough contradiction within the audit team, insufficient sector experience and insufficient seniority within the team;
- familiarity between client and the end-responsible auditor, whereby e.g. the findings of team members are not taken seriously;
- group audits with seniority differences between executives, distance to and unfamiliarity with foreign cultures and habits, resulting in interpretation differences and pressure. For example, about finalising the audit or accepting and supporting the substantiating findings.

2. Insufficient knowledge within practice about what fraud actually entails

In practice, it appears that accountants are better placed to discover fraud if they have direct and relevant experience with suspected fraud and fraud signals. This experience, e.g. about recognising patterns of fraud, is only available to a limited extent in practice, among individual accountants as well as teams.

Immaterial

Accountants do not have enough experience with material fraud and thus miss signs and changes in behaviour that point to (potential) material fraud. Most cases of fraud or irregularities do not have a material effect on the annual accounts or start small, and that is an area where teams possess the most experience. Due to a lack of experience, accountants do not always assess situations in the correct perspective during the fraud risk analysis. Accountants also fail, for example, to duly notice changes and certain behaviours on the part of clients, their activities or their business rationale.

Developments in society

It is important for every accountant to remain up-to-speed with developments in society and expectations. Besides the programmes of individual audit firms, there are currently no structured and periodic updates about current affairs, social developments, professional scepticism and 'say what you see', while this could help accountants to keep developing in the field of fraud. Because responsibility runs throughout the chain, such structured and periodic updates not only affect auditors, but also accountants that hold internal positions at entities.

3. Understanding and in-depth knowledge of clients and processes

Entities are becoming more and more complex, and the speed and impact of developments is increasing. As a result, it is very important to understand the client, obtain in-depth knowledge and remain up-to-date with new developments.

Insufficient quality of fraud risk assessment, approach and execution

To ensure adequate and professional judgement on fraud risk factors and fraud risks, it is crucial to possess knowledge about the entity's administrative processes and control monitoring system. This also applies to know-



ledge about evaluating the culture and integrity of (players within) the entity. In cases where things went wrong, a lack of relevant insight into – and knowledge about – the audited entity is seen as a widely identified cause. This can often be attributed to changes in the team that cause client-specific knowledge to be lost. This has consequences for the quality of risk assessment, as well as the nature, scope and depth of the audit approach.

Compliance-related pressure

Accountants also experience compliance-related pressure. This leads to accountants and teams operating within a strictly organised audit process, which is followed carefully and results in a compliance proof audit file. But they do so without effectively validating content and without recognising and addressing its impact. This strong focus on compliance comes at the expense of anticipating developments and changes in the entity, and their incorporation into the risk analysis and audit approach.

Group audit versus SME

The distance from, and lack of knowledge about, entities has an impact on the quality of the fraud risk analysis. In contrast, in SME's, accountants tend to have a more trusting relationship with clients because the accountant is close to the entity and thus possesses more knowledge about the entity. Although this is essential, this could also have consequences for the independent and critical attitude of the accountant. For example, due to pressure applied by the client or due to a bias towards the client. This bias could mean that the accountant possesses so much knowledge about the client that fraud is not noticed or is rationalised as inconsequential.

4. Other interests take precedence over the required critical attitude

Due to scarcity in the labour market, audit firms have started to become stricter when assessing their client portfolio. This can, for example, be witnessed in the (annual) rate of client acceptance. Nonetheless, maintaining a good client relationship is mentioned as one of the causes for not acting adequately in case of fraud or failure to discover fraud on time. This could hinder the critical attitude of an audit team or the responsible auditor.

Tone at the top and tone of voice

The audit firm's tone at the top is not always in keeping with the situation in practice, namely the tone of voice,

whereby client interests at individual level are prioritised above the organisation's interest of realising a good quality audit. For instance, the identified causes involve an unsafe environment, where it is not done to make mistakes or report them. Pressure on financial performance and focus on client interests can also result in tensions. For example, having to finalise audits due to time constraints or deadlines that are structurally too tight. This then requires courage and conviction to keep going, because outcomes can be uncertain in terms of timing and budgetary pressure. But fraud can also be missed due to underqualified audit teams, because not enough personnel possess the required risk profiles.

5. Integral approach and direction regarding fraud in the audit process

We call for greater focus on an integral approach and direction on the theme of fraud throughout the audit process. In this case, focus on fraud – from the start to the end of the audit – will be embedded into the accountant's behaviour. This will ensure that audits focus on excluding material misstatements in the annual accounts which can be attributed to fraud and errors. Accountants do not always experience and perform audits in this manner. As a result, focus on fraud risks can be perceived as difficult and be hard to 'sell' to the client. This is, for example, also being encountered now that accountants are having to report on fraud.

Use of data tools

As far as methods are concerned, we are calling for greater focus on using data analytics tooling to plan the audit and to recognise patterns of fraud within client's processes. Professional scepticism, fraud-related knowledge and experience, and specific knowledge about the client are prerequisites for effectively using data tools. There may also be (knowledge-related) shortcomings when it comes to tooling and being able to adequately keep up with and understand the IT systems of clients. In this regard, complexity associated with the client supplying or transferring data can serve as an obstacle for the use of data analytics tooling.

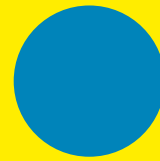
Financial flows

The approach adopted for, and the performance of, the audit generally focuses on the true and fair view of the presented information. As a result, accountants do not always pay sufficient attention to financial flows within the administration. This means noteworthy transactions





*Detecting fraud requires
a more critical and
professional attitude*



and the fraudulent appropriation of resources could be overlooked. Accountants also feel restricted when it comes to accessing sufficiently detailed payment-related information from banks. And in this case, it also matters if and to what extent the accountant effectively uses the available auditing resources and methods.

Insufficient depth

When the review of audit the audit files and reflection are not in-depth enough, accountants miss fraud signals or do not follow them up adequately. For example, this is encountered during reviews, where underlying aspects of the audit documents are not properly verified. Audit firms must be able to prevent this using engagement quality control measures.

6. Internal control at entity: role of the chain

The responsibility of parties in the chain also plays a role when effectively detecting, preventing and tackling fraud. This, for example, relates to the role played by preparers of annual accounts, education, the professional association (NBA), the supervisory authority as well as the detection chain.

Education and competence development

Society expects accountants to detect fraud and report about it. The education and support offered by the NBA misses structural focus that makes accountants more aware about fulfilling their public role in detecting fraud and improving the eco-system. The professional association could better support and facilitate accountants, for example, when it comes to competence development, attitude, behaviour, communication and exchanging and using smart tools. Initial and permanent education usually have a professional, methodological and audi-

ting-oriented basis. There is limited focus on culture, behavioural components and professional scepticism. As a result, only very limited attention is paid to soft controls in the audit approach and execution.

Quality of internal control

Adequate administrative processes and effective control monitoring systems are essential for an entity to prevent and detect fraud. The accountant must play an important role in informing the client and those charged with governance about the importance of good-quality and effective administrative processes and control monitoring systems. The accountant must make a positive contribution to the improvement potential. Improvements in control monitoring systems can help the entity to signal and react in a more alert manner. More support for the accountant is needed from the NBA so that s/he can fulfil this role. In addition, the NBA has an important role to play when tightening the required prerequisites in the eco-system. This can be done by opening a dialogue with preparers and users of financial statements.

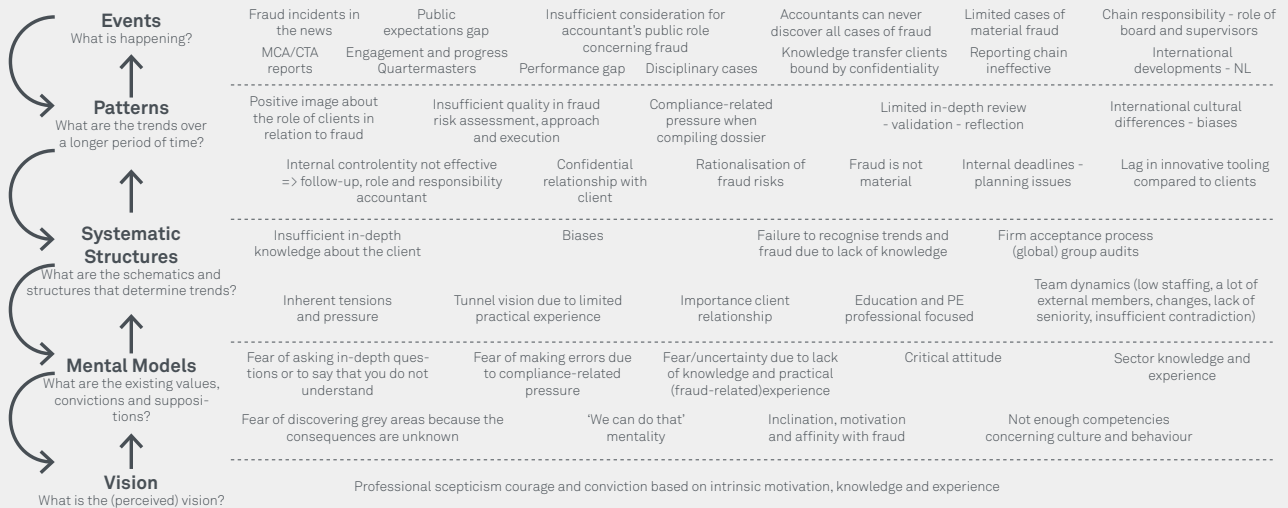
Supervisory vision

Accountants acknowledge compliance-related pressure from the supervisory authority, which they experience primarily being focused on the (formal) content of the audit files. They then feel the need to satisfy the supervisory authority. It will be possible to positively encourage accountants by expanding the supervisory vision and approach, with focus also being placed on the client and the fraud risk analysis.



7. Causes show relationship

All these causes show a close relationship. The image below has summarised this using system theory. In short, system theory assumes that people can only be truly understood by considering the context of their relationships.



The causes of fraud-related shortcomings are also linked to **the Root cause analysis into going concern**. This relationship can be found with regard to the following topics:

- biases and situations of self-overestimation by the accountant, whereby the accountant follows the perception of the client. This can lead to a positive impression, or to positive assumptions about going concern being accepted, or to fraud risks or fraud being rationalised;
- the absence of in-depth knowledge about the client and critical reflection overall;
- the absence of a critical attitude that leads to an integral approach and method aimed at fraud and going concern;
- differing interests and attention to fraud and going concern between preparers and accountants.



8. Potential interventions

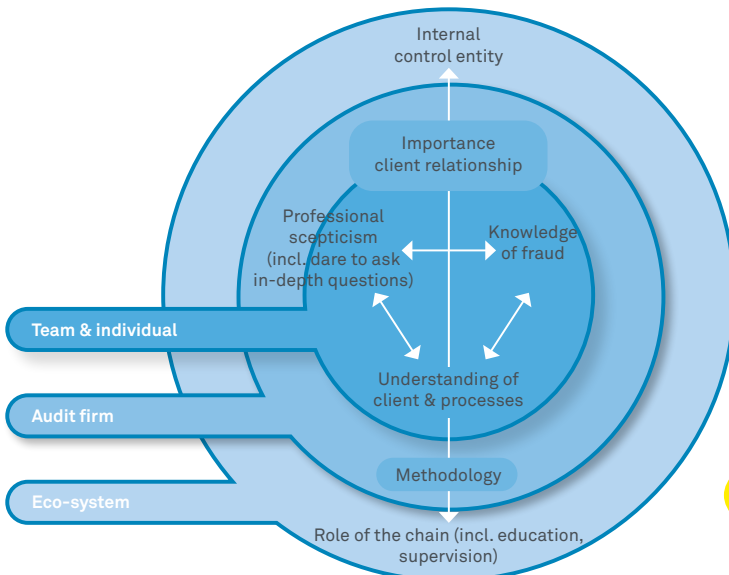
From six themes to fraud interventions

The exploratory root cause analysis into fraud resulted in six themes that professional accountants would like to address.

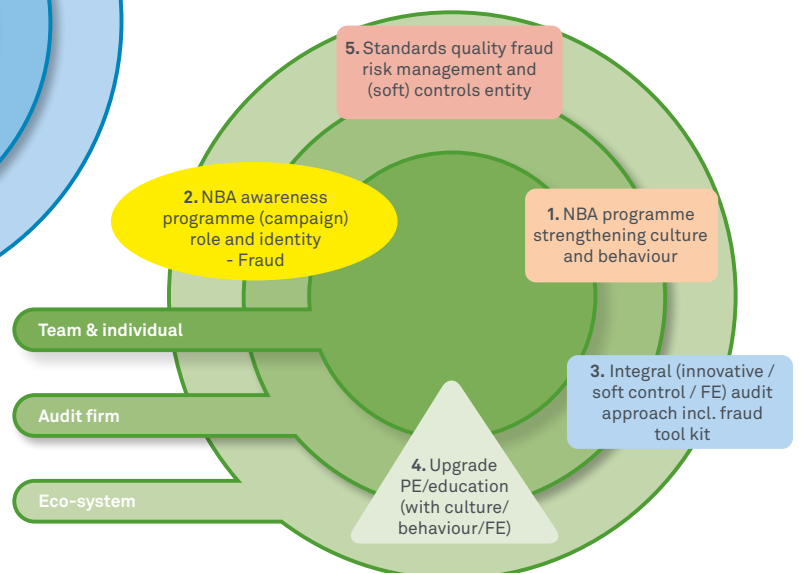
The exploratory root cause analysis into fraud resulted in many causes. They can be attributed to six core causes:

- for the accountant, this involves a critical professional attitude, knowledge about fraud, and understanding of the sector, the entity and the processes;
- for the audit firm, this involves the audit method and the influence of client relationships;
- in addition, as far as the eco-system is concerned, this involves the quality of internal control processes at the audited entities.

A combination of measures is needed in order to address these and other causes. Based on the presented and discussed causes, we can conclude that a number of them require fundamental changes and cannot be resolved with a short-term project. This means the measures cannot be seen as the final destination. They mainly serve as a call to continuously anchor focus on fraud within the profession and to embed it within behaviour. This includes education and culture. We must see the measures in conjunction with each other and as a whole.



Themes from exploratory root cause analysis into fraud and initial exploration of interventions.



The following measures could have the biggest impact on the effectiveness of fraud prevention and fraud detection by accountants:

1. Join a new programme by the NBA, aimed at strengthening the culture of audit firms and the behaviour of individual accountants as a building block for other initiatives aimed at fraud and going concern.
2. Join a yet-to-be-developed awareness programme (campaign) by the NBA in order to support:
 - A. Accountants: improve awareness about their own role, identity, intrinsic motivation and responsibility concerning fraud and going concern;
 - B. Society: clearly state what can be expected of accountants (and audited entities) in the field of fraud and going concern.
3. Fully embed fraud into the audit process (including fraud tool kit). For instance, by reinforcing (sector-specific) fraud risk analysis, attention for culture and soft controls within the audited entities, specifying the use of sector knowledge and forensic expertise in audit teams, concepts and/or tooling (including data analysis), and by reporting about fraud.
4. Strengthen initial and permanent education about fraud. Together with, among others, NBA's 'Lerend beroep' department ('learning profession' department, which is involved with accountants education) and CEA. Firmly embed and upgrade the elements mentioned under points one and three in accountants education and the training provided by audit firms, and address the issue of fraud periodically/annually in permanent education.
5. Standards: set requirements for the system of internal control and fraud risk management at audited entities. This can partly be done using the above-mentioned recommendations for directors and supervisors about preventing and detecting fraud. In addition, work on a programme aimed at making accountants pay specific attention to cultural and behavioural aspects at the audited entities. Also join the new NBA working group on Risk Management Statement (RMS, Dutch: Verklaring omtrent risicobeheersing (VOR)).

It is necessary to set up monitoring in order to assess the effectiveness of the measures. This can involve using the quality assessments of AFM and NBA, and the NBA knowledge tests. In the coming months, the Fraud working group will, under the leadership of the Public Interest Steering Committee and in collaboration with e.g. NBA and CEA, set about defining these measures. The working group will then translate these measures into the fraud agenda for 2022 and beyond. These measures do not stand alone, but will lead to improvements when implemented in conjunction with each other.



9. Afterword Kris Douma

Fraud must be at the heart of the accountants role

My impression after reading the exploratory root cause analysis into fraud, and after the various discussions with the Public Interest Steering Committee about the issue of fraud, is that fraud detection must be at the heart of the accountant's role. You must want to detect fraud because the underlying principle is that annual accounts must offer a true and fair view. This is what is audited, which means fraud also plays an important role. After all, fraud compromises the true and fair view of the entity's assets and result. When I was a project leader for the Public Interest Steering Committee six years ago, I sometimes heard accountants say that they were not detection officers or police agents. Thankfully, such views are heard a lot less now, although I think they may still be somewhere in the back of people's minds. So I would clearly and emphatically like to state that discovering fraud is part of our public task. It is our job.

Sounding the alarm

Once you see it as your role, the next step is to have a critical professional attitude, as one would expect accountants to have towards their clients. This requires mental alertness and means preparing for and practising various situations. Sound the alarm. Dare to report within your audit firm if you suspect something. Seek support from your organisation or from colleagues during difficult discussions about suspected fraud. Certainly if this suspected fraud is among the management team at the audited entity. On the other hand, you may encounter entities that are actually pleased to be informed about fraud risks. This will offer a chance to improve their control measures by identifying failings in their system. We can play a constructive role in this regard. But fraud among (a member of) the management team of the audited entity can be more difficult. Take a look at Wirecard. In such cases, one encounters different degrees of unwillingness. This is when you are expected to show courage and take certain steps; within your own audit firm or by going to the Supervisory Board (those charged with governance) or qualified authorities, such as the Financial Intelligence Unit.

Are there obstacles?

How the role of accountant is perceived is one aspect, but accountants have recently also stated that certain obstacles could prevent (suspected) fraud from being reported. They say that professional codes concerning confidentiality and non-disclosure could be an obstacle. In this case, reporting on fraud, but also about e.g. sustainability or the going concern of the entity, could lead to issues with the Chamber of Accountants. This is undesirable. The NBA is investigating this matter in one of its project groups. Are there obstacles, what are they and what can we do to eliminate them? We will look at what the NBA is able to influence.

Knowing your client

I would also like to direct your attention to the importance of knowing your client. A client in the international mining sector will present different fraud risks than a retailer in the Netherlands. What are these sector-related risks and what is specifically happening at this client? How big are the risks and what can the entity do to manage them? Accountants should have a critical professional attitude towards the internal control measures. Are they appropriate for the risk in question? But also: are enough resources available to follow up on suspected fraud, trace the fraud in question, and implement required actions? In short, is an effective process in place to follow up suspected fraud.

Risk Management Statement

Last but not least: in response to the consultation for the new Corporate Governance Code, we called for a compulsory Risk Management Statement (RMS). Our point of view has been supported by a wide range of parties - from the AFM to Eumedion - but a number of stakeholder organisations are not yet ready for it. The Minister of Finance even wanted to expand the scope of the 'in control statement', from merely financial reporting risks to also operational and compliance-related risks. We agree with this wholeheartedly. As Leiden University said in one of its research reports: "This will create an extra incentive for the board to be effectively 'in control', to take all necessary measures needed for this within the legal en-



tity, and to thus improve the quality of the internal risk management and controls systems.” However, a RMS does not relieve accountants of their duty to investigate suspicions of fraud and to possibly involve a forensic accountant if necessary. In this case, the accountant will be like a first-line doctor, while the forensic accountant will be a second-line specialist. That said, risk management measures must always be started by the entity in question.

Maximise the likelihood

Identifying fraud is and always will be part of an accountant’s job description. It is one of the accountant’s main public tasks, and the public rightly has high expectations. Undetected fraud fundamentally compromises the true and fair view of the entity. Fraud, as well as going concern, is among the core tasks of an accountant. This means accountants must become more knowledgeable about their clients, and improve their skills when it comes to detecting fraud, and reporting fraud risks and suspected fraud. This includes eliminating potential obstacles within professional codes of conduct. We are currently researching this matter. Finally, as far as we are concerned, the RMS must be introduced. I hope that the Corporate Governance Monitoring Committee, or the legislator, is equally convinced in this regard.

As accountants, we should embrace this root cause analysis into fraud. We need knowledge and courage, and must demonstrate it to the best of our abilities during auditing activities. We must do everything to ensure a true and fair view of the annual accounts. In the public interest. We cannot, and do not want to, overlook fraud. No way.

drs. Kris Douma, chairman of the Royal Netherlands Institute of Chartered Accountants



About the Fraud working group and the NBA Team for the Exploratory root cause analysis into fraud

The Fraud working group works under the leadership of the Public Interest Steering Committee and the Non-PIE Platform to prevent and detect fraud, corruption, money laundering and non-compliance with laws and regulations. The Fraud working group is a collaboration between NBA and audit firms.

Task

The Fraud working group supports accountants in every aspect of fraud detection. The activities of the Fraud working group help to realise the fraud-related objectives of the NBA. For further information, see <https://www.nba.nl/over-de-nba/veranderagenda-audit/werkgroep-fraude/>

Members of the working group

Rob Bergmans (Deloitte) - sponsor on behalf of the Public Interest Steering Committee
Erik van der Haar (HLB Witlox Van den Boomen) - sponsor on behalf of the Non-PIE Platform
Sander Kranenburg (partner PwC) - chairman
Berry van Blijderveen (EY)
Valentijn Kerklaan (KPMG)
Dick van Onzenoort (BDO)
Ariën Oskam (Grant Thornton)
Johan Peters (SRA)
Ruud van Moll (Deloitte)
Joeri Frietman (Mazars)
Marianne van Kimmenade (NBA theme director fraud)

The working group is supported by the NBA office and reports to the Public Interest Steering Committee and the Non-PIE Platform.

NBA Team Exploratory root cause analysis into fraud

Wim Bartels (external advisor)

Marianne van Kimmenade (NBA theme director fraud)

Would you like to contact us?

Marianne van Kimmenade

Themaregisseur Fraude

M.vanKimmenade@nba.nl

(020) 3010328









Royal Netherlands
Institute of Chartered
Accountants

NBA

Antonio Vivaldistraat 2
NL-1083 HP Amsterdam
P.O. BOX 7984
NL-1008 AD Amsterdam

T +31 20 301 03 01
E nba@nba.nl
I www.nba.nl

