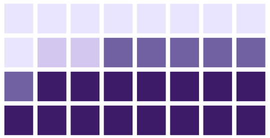
SUPERVISION VISUAL SUMMARY

Insufficient audit procedures in response to fraud risks

In short Auditors perform audit procedures to address fraud risks. The AFM reviewed the quality of these procedures, and we conclude that the procedures performed often lack sufficient specificity and depth. For example, because auditors only plan and perform standard procedures, without adapting their nature, timing and extent to the fraud risk. As a result, the audit procedures performed often fall short. Auditors' professional scepticism and questioning mindset must improve. The AFM expects auditors and audit firms to take their responsibility for addressing fraud.

1 During the **fraud risk analysis** fraud risks are identified and the auditor must take action in the form of **audit procedures**.

2 We reviewed 32 statutory audits at 13 audit firms (both PIE and regular audit firms). Audit procedures were deficient in **two-thirds of the reviewed statutory audits**. We observed no findings in only one-third of them.



No findings ***(9)***

One finding ***(2)***

Two findings ***(6)***

More than two findings ***(15)***

Total: *32 statutory audits*

3 The fact that we observed findings in so many statutory audits is partly because auditors often are too hasty. **They fail to perform in-depth audit procedures,** with the result that fraud may **remain undetected**.

JANUARY 2025

1. Introduction and key findings

In May 2022, the AFM published the position paper Audit firms' approach to fraud and fraud risks at audited companies,[1] in which we announced that the theme of fraud would be structurally on the supervisory agenda in the coming years. The position paper contains the hypothesis that auditors do not adequately fulfil their responsibility for identifying and follow-up on fraud and fraud risks. The review of the quality of the fraud risk analysis published in 2023 and the present review (this report) concerning the quality of audit procedures, confirm this hypothesis.

Follow-up on previous review of fraud risk analysis

In 2023, we conducted our first fraud thematic review, specifically on the quality of the fraud risk analysis. On 8 June 2023, we published the results in the report More attention for fraud risks!. Our call for more practical guidance was taken up by the NBA, who published *Handreiking 1153 Frauderisicoanalyse* (Practice note 1153 Fraud risk analysis) (for consultation) in July 2024. This report contains the results of our subsequent fraud thematic review.

The auditor has an important role in detecting and follow-up on fraud

The primary responsibility for preventing and addressing fraud lies with the audited companies themselves. The timely detection and follow-up on fraud and fraud risks by the auditor in the statutory audit can prevent significant damage to the company's stakeholders. The detection and follow-up on fraud and fraud risks in the statutory audit is therefore a key responsibility of the auditor. Fraud and the role of the external auditor are therefore the focus of sustained social and political attention both nationally and internationally. The final report of the' Coordinators for the Future of the Audit Sector' also endorses the importance of auditors devoting attention to fraud.[2]

Purpose of this review: to form an objective picture of the quality of the auditor's procedures addressing fraud risks

The aim of this review is to form an objective picture of the quality of the audit procedures performed by auditors to address fraud risks, and the sharing of good practices. We assessed a total of 32 statutory audits for the 2022 and 2023 financial years at 13 audit firms. We examined whether the statutory auditor obtained sufficient and appropriate audit evidence[3] (NV COS 500.6) with the audit procedures performed to address the identified risks of material misstatement due to fraud (NV COS 240.31).[4]

Both Public Interest Entities (PIEs) audit firms and regular audit firms reviewed

We selected four audits at each of three PIE audit firms, two of which were PIE audits. In the case of the 10 regular audit firms, we selected two statutory audits. In order to obtain the broadest possible picture, we selected statutory audits in which a number of different fraud risks were identified, as described by the auditor in the fraud section of the

1 Simultaneously with the AFM position paper, the Royal Netherlands Institute of Chartered Accountants (NBA) published similar observations in June 2022 in the report entitled *Verkennende oorzaakanalyse fraude: Fraude vraagt een meer kritische grondhouding* (Exploratory analysis of causes of fraud: Fraud demands a more questioning mindset).

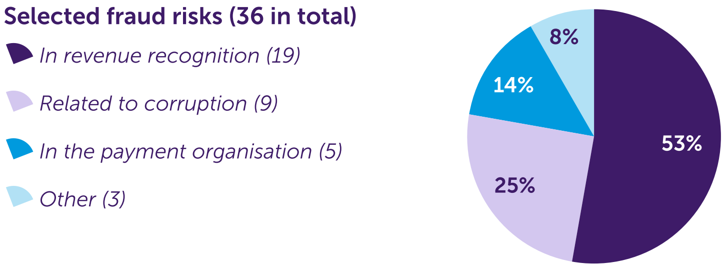
2 Druk en tegendruk: *Slotrapportage kwartiermakers toekomst accountancy* (Pressure and counterpressure: Final report of the Coordinators for the Future of the Audit Sector | Report | Rijksoverheid.nl.

3 Audit evidence must be 'sufficient' and 'appropriate'. These two qualifications are interrelated. The term 'sufficient' is the measure for the quantity of the audit evidence. The term 'appropriate' is the measure for the quality of the audit evidence. Appropriate means that the audit evidence is relevant and reliable so that this information constitutes substantiation for the opinion of the statutory auditor.

4 Dutch Auditing Standards (*Nadere voorschriften Controle- en overige standaarden* or NV COS).

auditor's opinion. We also selected a number of group audits. For each statutory audit we selected at least two fraud risks. In the review, we inspected the risk of management override of internal controls in all statutory audits[5], including the examination of journal entries, and at least one additional (client-specific) fraud risk (Figure 1).

Figure 1. Overview of selected client-specific fraud risks



Examples of other fraud risks are those relating to VAT (carousel fraud) and performance agreements with suppliers.

In-depth audit procedures for fraud risks are crucial

Follow-up on fraud risks is one of the most important pillars underlying a proper statutory audit. The Standards prescribe that the auditor must obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. It is thus at the heart of the accounting profession, because of the importance that users of financial statements attach to reliable information, and the decisions they base on it.

Fraud risks are a major component of the audit of financial statements. Specific audit procedures are planned and performed to address them. The auditor then reports on fraud and the audit procedures performed in the auditor's opinion. If the auditor does not perform sufficient audit procedures or does not do so in sufficient depth, a material misstatement due to fraud may remain undetected. Consequently, there is a risk of an incorrect auditor's opinion being issued or the auditor's opinion being insufficiently substantiated. This can result in unjustified confidence amongst users of the financial statements.

Attention is given to fraud risks, but the review points to a need for more in-depth audit procedures to address fraud risks

In all 32 statutory audits reviewed, we observed that auditors devoted time and attention to fraud risks and associated audit procedures, but these audit procedures were lacking in depth and specificity too often. In 23 of the 32 audits we found that the auditor did not obtain sufficient and appropriate audit evidence to address one or more fraud risks (Figure 2). Moreover, in many cases we observed one or more other findings, for example with regard to the fraud section in the auditor's opinion or the inclusion of an element of unpredictability. A finding was observed if an NV COS standard was not met.

At regular audit firms, we observed one or more findings in the execution of audit procedures addressing identified fraud risks in 17 of the 20 statutory audits. At the three reviewed PIE audit firms, we observed one or more findings in 6 of the 12 statutory audits. The number of statutory audits with findings differs amongst the three PIE audit firms. Improvements are required in aspects such as the depth of audit procedures. We also reiterate our call for attention to the quality of the fraud risk analysis. It is important that auditors take adequate steps to identify the relevant (client-specific) fraud risks.[6]

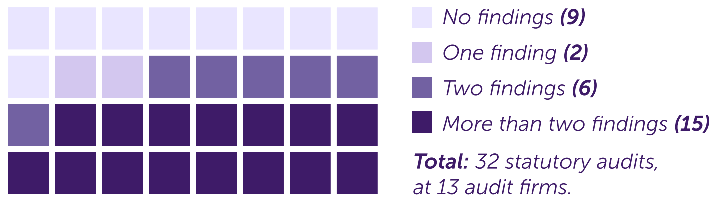
We observed no findings in just nine statutory audits. Of the 32 statutory audits, 23 contain one or more findings, and 15 of the 32 statutory audits contain more than two findings (Figure 2). In the review we also observed good examples of auditors addressing fraud risks. The good examples we observed in this review are shared in Chapter 2.

5 Management override of controls; override of internal controls by management.

6 In this regard see also Snapshot of the sector 2024 and the NBA report: *Analyse Rapportering over fraude in de controleverklaringen 2022 – Oob's en niet-oob's* (Analysis of reporting on fraud in 2022 auditor's opinions – PIEs and non-PIEs): https://www.nba.nl/siteassets/documenten/bijlagen-nieuwsberichten/rapportering-over-fraude-in-de-controleverklaring-2022.pdf.

Figure 2. Number of findings in 32 reviewed statutory audits

Regular and PIE audit firms:
findings in 32 reviewed statutory audits



Audit procedures responding to fraud risks are lacking in depth and specificity

Given their importance and particular nature, fraud risks demand particular attention in the audit. The auditor must adapt the nature, timing and extent of the audit procedures in order to address these risks. In many cases, we noted that auditors plan and perform standard procedures to address identified fraud risks and do not, or do not adequately, adapt the nature, timing and extent of such procedures to respond to fraud risks.

In 10 statutory audits we also observed that the fraud section of the auditor's opinion was incorrect or incomplete and thus presented an overly positive picture of the audit procedures performed.

Professional scepticism and questioning mindset must improve

In our review we observed insufficient professional scepticism in 6 statutory audits. This is deemed to be the case if there are both multiple findings in relation to audit procedures addressing a fraud risk and no sufficient follow-up of contraindications or peculiarities in the audit.

Auditors and audit firms must take responsibility for fraud

Auditors and audit firms have a responsibility for addressing fraud. In 2022, the NBA's fraud working group published an exploratory root cause analysis of fraud, asserting that fraud demands a more questioning mindset. This analysis is largely in line with the analysis carried out by the AFM in May 2022. In summary, the key factors for the still deficient identification and follow-up on fraud risks are as follows:

(i). Knowledge, skills and expertise are not always sufficiently available.
(ii). Role perception, attitude and mindset may be deficient when it comes to detecting fraud and fraud risks.
(iii). The internal culture at audit firms may be a hindrance.

The results of this review and the NBA's analysis of root causes indicate that follow-up steps are necessary. The AFM expects auditors and audit firms to acquaint themselves with the results of this review, to reflect on them and – where necessary – to take concrete steps to improve the quality of audit procedures addressing fraud risks. We call for particular attention to a questioning mindset and for sufficient attention to be devoted to fraud risks. The AFM will discuss this with the sector in the coming period.

The results of the review are also useful for audit committees

Audit committees play an essential role in guaranteeing the quality of financial reporting. They are also responsible for overseeing the processes followed by management to identify and respond to the risks of fraud in the entity.

We urge audit committees to use the results of this review when discussing the audit plan with the external auditor. Specifically, audit committees can engage with the external auditor on audit procedures addressing client-specific fraud risks, audit procedures addressing the identified (mandatory) risk of management override of internal controls and the way in which fraud can occur in revenue recognition.

2. Results of the review

2.1 Auditors perform insufficient audit procedures to address client-specific fraud risks

The role of the auditor

The auditor plans audit procedures to respond to identified fraud risks. The auditor must consider these risks to be significant. He is also required to assess the design and implementation of internal controls to address these risks. When planning and performing these audit procedures, the auditor must take into account the nature, timing and extent of these audit procedures. The auditor must also keep in mind that audit procedures that are effective in detecting errors may not be effective in detecting fraud.

Furthermore, the auditor must consider the knowledge, skills and abilities of the team members involved in these audit procedures. The auditor may address the identified risks of material misstatement due to fraud, for example by deploying additional personnel with more experience or specific expertise and knowledge, such as fraud and IT experts. In addition, the auditor should incorporate an element of unpredictability when determining the nature, timing and extent of the audit procedures to be performed. The auditor should also evaluate the selection and use of accounting policies and determine whether they may indicate fraudulent financial reporting due to management attempts to manipulate profit. If significant (fraud) risks are only addressed by means of substantive procedures, these should include tests of details.

Audit procedures addressing client-specific fraud risks
Examples of client-specific fraud risks are those relating to revenue recognition (e.g. cut-off or completeness), corruption (including bribery), payment organisation, valuation of projects in progress or related party transactions. For these fraud risks, the auditor plans and performs specific and additional audit procedures. A characteristic feature of these audit procedures is that their nature, timing and extent correspond to the identified fraud risks at the level of assertions.

The auditor may decide that it is necessary to change the **nature** of the audit procedures to be performed in order to obtain more reliable and relevant audit evidence or additional supporting information. This can be done, for example, by means of on-site observations or asset inspections (inventory counts), the use of audit software applications and obtaining external confirmations of details of sales agreements, such as return and delivery conditions.

The auditor may decide that it is necessary to adjust the **timing** of substantive procedures, for example on or towards the balance sheet date, or, depending on the identified risks of intentional misstatement or manipulation, to test transactions that took place during the reporting period. The auditor may also choose to observe the inventory count at certain locations unannounced or to have it conducted on the same date at all locations.

The auditor may increase the **extent** of the performed procedures, for example by expanding the sample size or performing more detailed analytical reviews. The use of data analysis may be helpful in this regard.

Planned procedures are insufficient in terms of their nature and extent to address the identified fraud risk

In the case of client-specific fraud risks, the auditor must establish specific audit procedures to address the identified risk. In a number of statutory audits, we observed that the auditor planned inadequate audit procedures to address the identified fraud risk. For example, we observed that, aside from the standard audit procedures, auditors planned no specific audit procedures to address the fraud risk. The auditor thus acted improperly by failing to adjust the **nature** and **extent** of the planned procedures. In many cases we also observed that no adjustment to the **timing** of procedures was considered. As a result, we observed that the actual audit procedures performed were deficient in terms of their nature, extent and depth.

Good practice
Below we share a good practice with regard to the involvement of the fraud expert in all phases of the audit.

Involvement of fraud experts throughout the audit
The auditor involved fraud experts in both the planning and execution phases of the statutory audit. The involvement of these fraud experts contributed positively to the quality and depth of the performed audit procedures with regard to the risk of fraud and violation of laws and regulations.

We observed one or more findings in audit procedures addressing fraud risks in 23 statutory audits

We observed one or more findings in 23 statutory audits. These primarily concerned both the nature and extent of the audit procedures performed and the depth of the audit procedures. We saw few concrete examples where the timing of the audit procedures was adjusted to address the identified fraud risk.

The nature and extent of the audit procedures performed were insufficient
For client-specific fraud risks, the auditor must perform specific audit procedures to address the identified fraud risk. In a number of statutory audits we observed that the performed audit procedures were deficient in terms of their nature and extent. For example, in some cases, the auditor did not perform tests of details, whereas this is a requirement if a significant (fraud)risk is addressed only by means of substantive audit procedures.

In the case of fraud risks relating to corruption we observed, for example, that an auditor obtained a list of invoices for agents' commissions, but then performed insufficient procedures on the list because contracts with agents were not assessed and no consideration was identified. In another example outgoing payments to countries with a low CPI index[7] were analysed to determine the business rationale of transactions, but for a number of transactions the business rationale was not verified on the basis of source documentation. These procedures were relevant because the auditor had selected these entries for further verification due to the fraud risk identified. The nature of the entries (country, beneficiary, description) also warranted further verification against source documentation. A notable feature of the auditing of corruption risk is that agent payments and other expenditures are not seen as material, and no relationship is established with the – in most cases – obviously material sales value of (for example) projects obtained through the agent.

7 Corruption Perceptions Index: https://www.transparency.org/en/cpi/2023.

In practice, the direct transaction flows are often not material in quantitative terms, but the derived transaction flows, such as balance sheet positions or disclosures, are indeed material.[8] In addition, auditors do not always take qualitative aspects into account when performing audit procedures. For example, an auditor failed to perform a detailed verification of a particular payment against source documentation, because he did not consider the entry to be material.

Good practice
Below we share a good practice in consulting within and outside the audit firm in the case of corruption and money laundering risk.

Consulting within and outside the audit firm (corruption and money laundering risk)
The auditor identified a corruption and money laundering risk and consulted internally with the technical office on the procedures to be performed to address this fraud risk. In addition, the auditor consulted outside the audit firm (with a service organisation) and received a number of comments. He followed up on these in his audit by performing inquiries, and obtaining additional audit evidence where necessary.

In the case of fraud risks relating to revenue recognition we sometimes observed that only standard audit procedures were performed. Standard procedures are those that an auditor performs for material items or flows regardless of the risk assessment. We also observed that no specific audit procedures were conducted on the specific assertion to which the fraud risk related (according to auditor).

In the case of fraud risks relating to the payment organisation we observed, for example, that auditors did not perform planned procedures, limited themselves to the largest suppliers or a single bank account or did not establish that the supplier existed and that the service or performance stated on the invoice was actually delivered. A recurrent finding was that auditors did not obtain source documentation when performing tests. Particularly in the case of fraud risks, it is important to conduct audit procedures in sufficient depth.

In group audits we observed that in certain cases the group auditor did not adequately follow up any peculiarities reported by a component auditor or did not perform follow-up procedures if the component auditor had not reported on fraud risks and/or associated audit procedures. We also observed that the group auditor sometimes paid no attention whatsoever to fraud risks and associated audit procedures in his audit instructions. Finally, we observed that a group auditor conducted inadequate reviews of the audit procedures performed for fraud risks (by the component auditor), for example in the case of procedures relating to journal entries or specific fraud risks in revenue recognition or corruption.

Insufficient depth of audit procedures performed
As in previous AFM reports, we observed in this review that auditors performed audit procedures too superficially and not with sufficient depth. For example, in many cases auditors only obtained information by inquiries and did not verify this information adequately against source documentation.

We also observed that data analysis was used in an increasing number of statutory audits, including in audit procedures for fraud risks. This mainly involved the use of data analysis when carrying out tests of details. First of all, when using data analysis it is important that the auditor is critical with regard to how the data is obtained and then performs procedures to establish the reliability of the data. For example, the auditor must perform procedures to ascertain that the overviews, lists and databases are sufficiently sound to provide reliable information. In our review, some auditors did not perform sufficient procedures to ascertain the reliability of the data used in the data

8 NBA practice note 1137: Corruption: auditor's procedures.

analysis, for example by establishing that the product or service was actually delivered at the price stated in the contract. We also observed insufficient follow-up of identified peculiarities.

Good practice
Below we share a of good practice in the use of audit software (data analysis tool).

Use of audit software (data analysis tool) for fraud risks
The auditor used audit software (data analysis tool). This analysis tool analyses transaction flows, ledger accounts and journals to understand the business and its activities. This helps the auditor to gauge risks and plan the execution of audit procedures. The use of data analysis enables the auditor to focus the audit on specific items, journals or periods of the financial year. The data analysis is also used to identify and test journal entries with a higher fraud risk with supplementary source documents. Assessments are also made of the business rationale (or lack thereof) for particular transactions, including those with related parties.

No specific element of unpredictability was included in 13 of the 32 statutory audits

The auditor incorporates an element of unpredictability when determining the nature, timing and extent of the audit procedures to be performed. This is important because individuals within the entity who are familiar with the procedures usually performed in an audit engagement are better placed to conceal fraudulent financial reporting. We observed that 13 of the 32 reviewed statutory audits included no (appropriate) element of unpredictability. For example, we observed that unpredictability was not sufficient, because it involved a procedure that was usually performed in an audit engagement and would therefore not enable the auditor to discover fraudulent financial reporting. An example was where the stock locations at which the auditor would carry out an inventory were announced in advance, so there was no element of surprise. Performing the same sampling each year is in itself insufficiently unpredictable because the auditor also performs these procedures as part of his standard audit procedures, and they therefore match the management's expectations for the conduct of an audit. Unpredictability is an ideal way in which an auditor can include an element of surprise to discover possible concealment of fraud and actively search for possible indications of fraud in the audited entity.

Good practice
Below we share a of good practice for the element of unpredictability.

Unannounced on-site observation (element of unpredictability)
To include an element of unpredictability, the auditor visited a number of projects without prior notice. These included large and small projects and projects with a high and low degree of completion. The auditor ascertained that the existence of the projects and/or the reported progress was in line with the visible status of the project.

2.2 Insufficient audit procedures for management override of controls and journal entries

The role of the auditor in management override of controls (MOoC)

The auditor has the responsibility to exercise professional scepticism throughout the audit and to consider the possibility that management could override internal controls. In view of the unpredictability of potential management override of internal controls, this constitutes a mandatory risk of material misstatement due to fraud.

In addition to mandatory audit procedures for the selection and testing of journal entries (see below), the auditor performs audit procedures to assess any tendencies in the estimates and to assess whether any circumstances leading to a tendency pose a risk of material misstatement due to fraud.

Fraudulent financial reporting frequently occurs as a result of intentional misstatements in estimates, for example undervaluing or overvaluing all provisions or reserves in the same way in order to spread profit evenly over two or more reporting periods, or to reach a predetermined profit level and thereby mislead users of financial statements by influencing their perception of the company's performance and profitability.

In the case of significant transactions that fall outside the entity's normal business operations or appear unusual in some other respect, the auditor must examine whether there is a business rationale for them (for example in the case of related party transactions). The absence of a business rationale may point to fraudulent financial reporting or concealed misappropriation of assets.

We observed one or more findings in audit procedures performed for MOoC in 15 of the 32 statutory audits

Auditors often link the fraud risk of management override of internal controls to estimates. Examples include bad debt provisions, goodwill measurement and valuations of projects in progress. An example of a finding is where the auditor performed insufficient audit procedures on management estimates as a result of carrying out no or inadequate testing of significant assumptions. The performed procedures were often also deficient in terms of depth. For example, auditors performed inadequate procedures on information received from management. In addition, management information was not verified against source documentation. It is notable that audit procedures were often insufficient in terms of their nature and extent to address the identified fraud risk because only standard audit procedures were performed.

Audit procedures for MOoC fraud risk were not sufficiently specific
We observed that the mandatory fraud risk of management override of internal controls was often still seen as a standard risk that was rarely assessed on a client-specific basis. Few specific procedures were planned and performed to address this mandatory fraud risk. In some cases we observed that this mandatory fraud risk was combined with the assumed fraud risk relating to revenue recognition. Consequently, the audit procedures focused only on fraud risks in revenue recognition.

The auditor's role in the selection and testing of journal entries

Regardless of the auditor's assessment of the risks of management override of internal controls, the auditor should design and perform audit procedures to test the acceptability of the journal entries recorded in the accounting records and other adjustments made during the preparation of the financial statements. Required actions:

1. The auditor asks the individuals involved about inappropriate or unusual activities relating to the processing of journal entries and other adjustments.
2. The auditor selects and tests journal entries and other adjustments made at the end of a reporting period.
3. The auditor considers whether it is necessary to test journal entries and other adjustments made during the reporting period.

Criteria for the selection of journal entries
When selecting journal entries, the auditor considers, amongst other things, the risks of material misstatement due to fraud, the presence of fraud risk factors, the characteristics of fraudulent journal entries, the nature and complexity of the accounts and journal entries or other adjustments posted outside the normal course of business.

When selecting journal entries, the auditor is alert to the characteristics of fraudulent journal entries or other adjustments. Examples include entries in unrelated accounts, entries made by persons who do not normally post journal entries, entries with little or no explanation or an unusual description, entries containing round numbers and entries having the same final digits.

The auditor applies professional judgement when determining the nature, timing and extent of the testing of journal entries and other adjustments. Since these are often posted at the end of a reporting period, the auditor is required to select and test journal entries and other adjustments made around that time. Since material misstatements in the financial statements due to fraud can occur throughout the period and may involve significant efforts to conceal the manner in which the fraud was committed, the auditor must determine whether it is also necessary to test the journal entries and other adjustments made during the reporting period.

We observed one or more findings in the tests of appropriateness of journal entries in 11 of the 32 statutory audits

An example is where journal entries were not tested or not tested in sufficient depth. Selected journal entries were not verified against source documentation, or no consideration was given to the need to test journal entries during the reporting period.

Auditors do not sufficiently take qualitative aspects into account, besides the quantitative aspects, when selecting journal entries

An auditor should select journal entries based on an in-depth analysis of client-specific journal entries and also take qualitative elements into account. In most audits, auditors only applied a quantitative standard (threshold) for the selection of journal entries. In some statutory audits, the auditor did also apply a qualitative standard. This involved considering (on the basis of fraud risk factors) and substantiating which transactions were deemed 'exceptional' (in qualitative terms). A combination of factors was often used, such as certain words, a description, the date and time of the journal entry (outside working hours), persons posting few entries and entries impacting the company's results (taking into account the tendency of the management).

The appropriateness of journal entries and other adjustments during the preparation of the financial statements was not adequately established

The journal entries selected by the auditor must then be tested. That means the auditor must obtain sufficient and appropriate audit evidence concerning the appropriateness of the journal entry. Performing inquiries alone is not sufficient to obtain adequate assurance over the appropriateness of journal entries. After all, the auditor has already selected the journal entries on the basis of a number of criteria with heightened fraud risk. In addition, management is in a unique position to perpetrate fraud. The auditor must therefore apply professional scepticism in evaluating the information obtained, and it may be necessary to verify the management's answers against other information. When the auditor tests the journal entries, it is also insufficient to conclude solely on the basis of the description that there is no heightened risk and that the journal entry is acceptable. The entire journal entry must therefore be verified against source documents, with the auditor taking into account the preparer and authoriser of the journal entry, the purpose of the journal entry (taking into account the tendency of management) and the business rationale. We also observed that many journal entries included references to other sections of the audit, but that those sections showed no evidence that the auditor had tested the journal entries concerned.

Good practice

We share below a good practice in the selection and testing of journal entries by auditors.

Auditors conducted various analyses to select and test possible fraudulent entries

In journal entry testing a qualitative search function with specific keywords (for example entries with no description) was used to select journal entries by type and trace them back to source documents. Scenarios were also considered for this client concerning entry methods that could be used to commit fraud, and procedures were performed accordingly. Journal entry testing was also carried out on all journal entries, with both quantitative and qualitative thresholds being applied. The use of both quantitative and qualitative analyses in journal entry testing can raise the quality of the journal entry testing procedures.

2.3 Inaccuracies in the fraud section of the auditor's opinion

Auditors are required to report on fraud in a separate fraud section of the auditor's opinion.[9] In our review we assessed whether the procedures included in the fraud section matched the audit procedures performed in the audit file. We observed inaccuracies in the fraud section in 10 of the 32 statutory audits. An example is where the fraud risks and audit procedures performed included in the fraud section of the auditor's opinion presented an inaccurate or incomplete picture. The fraud risks and audit procedures performed described in the fraud section of the auditor's opinion sometimes did not match the auditor's underlying audit file. For example, we observed that the fraud section of the auditor's opinion included a fraud risk relating to revenue recognition, even though the auditor had rebutted this assumed fraud risk in his audit file. The opposite also occurred, with identified fraud risks not being explained in the auditor's opinion. Furthermore, in some cases audit procedures described in the auditor's opinion were not actually performed (or not performed in full). This often concerned procedures relating to the selection and testing of journal entries. Users of the financial statements were thus given the impression that more fraud procedures had been performed than was actually the case, and therefore users received inaccurate or incomplete information.

9 Standard 700.29B and *NBA-handreiking 1150: Rapporteren in de sectie 'Controleaanpak frauderisico's'* (NBA practice note 1150: Reports in the 'Audit approach to fraud risks' section).

2.4 Professional scepticism and questioning mindset must improve

Professional scepticism of the auditor

The Standards require the auditor to maintain professional scepticism throughout the audit, taking into account the possibility of a material misstatement due to fraud. This is particularly important in view of the characteristics of fraud (intent, and deception or concealment). In addition, fraud is accompanied with an incentive or pressure to commit fraud, an opportunity to commit fraud or justification for committing fraud.

We expect auditors to apply professional scepticism when performing audit procedures addressing fraud risks. This attitude is characterised by an investigative attitude, alertness to circumstances that may indicate misstatement due to error or fraud and a critical evaluation of audit evidence. We did not find this in all cases in our review. For example, auditors sometimes gave reasons why fraud risks actually posed no high risk, rather than adjusting the scope and depth of their procedures and thereby addressing identified fraud risks.

Auditors did not always follow up on contraindications or peculiarities in the audit

In the review, the AFM observed insufficient professional scepticism in 6 statutory audits. This is deemed to be the case if there are both multiple findings in relation to audit procedures addressing a fraud risk and no sufficient follow-up of contraindications or peculiarities in the audit. An example is where there was inadequate follow-up of identified peculiarities (triggering events) such as entries that were conspicuous in terms of their size or description, such as a description including – sometimes literally – 'kick-back' or payments to countries with a high risk of corruption. Another example is where auditors were not alert to information questioning the reliability of documents and the answers obtained. Auditors must ask themselves whether the information obtained indicates possible material misstatement due to fraud. In these situations, auditors must evaluate whether such circumstances point to a need for additional audit procedures, particularly in the context of situations indicating suspected fraud.

Good practice
We share below a good practice with regard to professional scepticism on the part of an auditor in the review.

Professional scepticism
The auditor applied professional scepticism when performing procedures addressing the identified fraud risk for 'Bribery and kickback fees'. Parties to which only one payment was made were selected for further investigation. The auditor concluded that the total of all these payments was small. Nevertheless, on the basis of qualitative elements (such as high-risk countries), the auditor made a risk-oriented selection of parties that warranted further investigation because of their nature ('name'). The auditor performed inquiries and obtained source documentation for this purpose.