

Supervisory Notice 1/2022

Fraud considerations
in audit

3 June 2022

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1. Introduction

Fraud resulting in material misstatements in the financial statements¹ and/or violating laws and regulations² are an inherent risk in auditing. Auditors must therefore consider the possibility of fraud as part of the audit so that they can respond appropriately to the associated audit risks.

The COVID-19 pandemic has led to a marked increase in the risks of fraudulent acts since 2020³. In particular, the risks of management override of controls have increased due to the broader use of hybrid working practices in audited companies and the risk of receiving (partly) false documents⁴. Audited companies may also be under increasing pressure to meet the expectations of third parties (financial analysts, institutional investors, etc.)⁵.

The purpose of this supervisory notice is to provide audit teams with practical guidance on how to respond to risks of material misstatement arising from fraud or non-compliance with laws and regulations. It is aimed at state-regulated audit firms, but may also be of use to other audit firms. The publication relates to the ordinary audit and not to the limited audit. It is not a binding pronouncement of the FAOA, nor does it derogate from or override applicable (inter)national auditing standards⁶. Furthermore, this publication does not claim to be complete. The study of this oversight communication is not a substitute for reading the aforementioned auditing standards.

2. General remarks on fraud

A fraudulent act is an intentional act with the aim to obtain an unjust or illegal advantage by falsification or suppression (deception) of facts⁷. The fraudulent act may be committed by one or more persons from among the management, the board of directors or the employees and also with the assistance of third parties. During the audit of stand-alone and consolidated financial statements, the audit team focuses on fraudulent financial reporting and misappropriation of assets of the audited company.

Fraudulent acts are facilitated by the three factors of the so-called "Fraud Triangle": (1) incentive or pressure to commit fraudulent acts, (2) opportunity to commit fraudulent acts, and (3) individuals may be able to rationalize committing a fraudulent act⁸.

3. Expectation gap

Primarily the board of directors of the audited company is responsible for the design of the accounting function and corresponding controls as well as for the overall supervision of the persons entrusted with the management⁹ and thus also for the prevention of fraud.

¹ The following statements also apply mutatis mutandis to other legally required auditing services. For the sake of simplicity, reference is made here to the audit of stand-alone and consolidated financial statements.

² Cf. PS/ISA 250 (Consideration of laws and regulations in an audit of financial statements)

³ During the pandemic, 96% of all surveyed fraud experts expected the same amount, more or significantly more fraudulent activities. 68% of experts expected more or significantly more accounting fraud (Association of Certified Fraud Examiners [ACFE], Fraud in the Wake of Covid-19: Benchmarking Report, December 2020, p. 5). Also with regard to the time after the pandemic, 87% of the experts expected the same amount, more or significantly more fraudulent activities. 94% expected the same amount, more or significantly more accounting fraud (ACFE, The Next Normal: Preparing for a Post-Pandemic Fraud Landscape, 2021, p. 6 and 10).

⁴ PS 240.13; ISA 240.14.

⁵ Appendix 1 to PS/ISA 240 lists specific examples of fraud risk factors. Furthermore, the aspects of the two FINMA circulars "Disclosure - Banks" and "Disclosure - Insurers" must be taken into account (RS 2016/01 and 2016/02).

⁶ Cf. the FAOA Circular No. 1/2008 on the Recognition of Auditing Standards dated 17 March 2008.

⁷ PS 240.11; ISA 240.12.

⁸ PS/ISA 240.A1.

⁹ Art. 716a para. 1 items 3 and 5 CO (Code of Obligations, CO; SR 220).

Nevertheless, at least part of the public assumes that the auditors must investigate all risks of fraud and consequently also detect all such cases if possible. However, according to the requirements of the (inter)national auditing standards, the respective audit team only has to identify and assess the risks of material misstatement due to fraud in the stand-alone and consolidated financial statements and mitigate these risks through appropriate audit procedures¹⁰. In this context, there is also talk of the so-called expectation gap¹¹.

Fraud also entails that the fraudulent act is concealed, in particular by collusion or falsification of documents. The detection of fraud is more difficult when the fraudulent acts are committed by the audited entities' management. As management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively¹².

Therefore, audit teams have to maintain professional skepticism throughout the audit¹³. To ensure this, each member of the audit team must have a healthy level of self-confidence, strength of character and resilience. The audit team must also consider all audit evidence and not just the audit evidence received from management. In particular, the audit team should: (i) Resist the temptation to accept a simple answer. (ii) Statements made by management should be corroborated with additional audit evidence that is supported by facts.

As mentioned above, auditors are obliged to carry out effective audit procedures. It therefore does not contribute to the public's trust in the audit profession that these requirements have only been met to a limited extent in individual, mainly international, financial scandals.

Nevertheless, the annual, independent and high-quality audit of stand-alone and consolidated financial statements as a preventive element contributes significantly to the prevention of fraud and increases the probability of detecting fraudulent incidents¹⁴.

4. Findings from the FAOA reviews

The FAOA assesses audit procedures covering the fraud risk as part of its inspections of state-regulated audit firms on an annual basis.

In the last five years (2017 to 2021) the FAOA identified a total of 75 findings¹⁵ in the course of 152 file reviews¹⁶ regarding audit procedures covering the fraud risk. The figure below categorises the 122 deficiencies, whereby a finding can also include several deficiencies.

¹⁰ PS 240.10; ISA 240.11.

¹¹ Strictly speaking, there is a combination of a knowledge gap, a performance gap and a development gap (see Association of Certified Accountants [ACCA], Closing the expectation gap in audit, London 2019, p. 9 f.).

¹² PS 240.31; ISA 240.32.

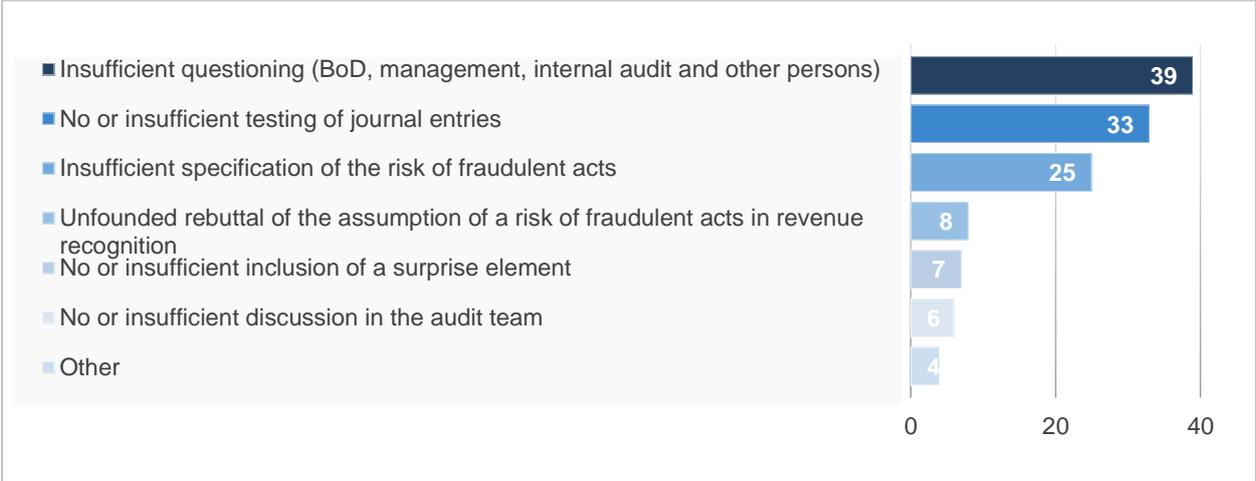
¹³ PS 240.12-14; ISA 240.13-15.

¹⁴ The presence of an external audit reduces the median damage and median duration of fraudulent acts by 46% and 37% respectively (ACFE, Report to the Nations, 2020 Global study on occupational fraud and abuse, p. 33 f.).

¹⁵ This includes both comment form findings and (subordinate) other reportable findings. Only comment form findings are summarised in the FAOA inspection reports and included in the FAOA's annual business reports.

¹⁶ These include both routine and thematic file reviews, as well as event driven preliminary fact-findings.

Figure 1: Type and number of deficiencies in audit procedures on fraud in the file reviews of the years 2017 to 2021



The FAOA most frequently identified deficiencies in the inquiries of members of the board of directors, management and others within the entity (e.g. internal audit). Specifically, the responsible persons were not always questioned about fraud, or the interviews did not cover all topics that must be covered under auditing standards. In some cases, the interviews did not take place in the planning phase and thus too late in the audit process.

The second most frequently criticised issue was the audit of journal entries, which are mandatory in response to the risk of management override of controls. The main areas of concern (isolated or cumulative) were as follows: (i) The identification and selection of journal entries to be tested were not based on characteristics typical of manipulated journal entries or other adjustments. In addition, other circumstances according to the auditing standards were not or only partially taken into account¹⁷ : (ii) The audit teams only insufficiently examined the journal entries recorded on the exception list or the conclusions drawn from them were not comprehensible. (iii) In some cases, no journal entries were audited at all.

The audit team must also assess the information obtained during the audit to determine whether there may be risks of fraud. The FAOA noted in its file reviews that warning signs of fraud (fraud risk factors¹⁸) were ignored and not considered in the risk assessment. Examples include: (i) doubtful business reputation and corresponding business conduct of members of the board of directors and management of the audited entity, (ii) contradictory or embellishing information in the entity's annual report, (iii) deficiencies in the internal control system (ICS) and (iv) unusual business transactions in particular with related parties.

The findings from the file reviews were mainly addressed through measures at the file level by adjusting the audit approach and scope and obtaining appropriate audit evidence. Recurring findings of fraud are also addressed at the firm level. Nevertheless, the number of findings over the last five years is unsatisfactory. Although the number of findings and deficiencies has been significantly reduced in 2021, no sustained positive trend can be identified over the entire period. Consequently, the FAOA will continue to focus on the auditor's responsibilities regarding fraud risks in the coming years.

¹⁷ For further explanations, please refer to point 5, lemma 11, below.

¹⁸ PS 240.11.b and 24; ISA 240.12.b and 25.

5. Essential improvements¹⁹

The FAOA considers the following topics to be particularly important based on its identified findings in audit procedures covering fraud risks:

- Training: If possible, audit partners and assistants should be trained on an annual basis using practical examples regarding the identification of fraud risks (consideration of warning signals) and designing audit procedures including using the work of specialists (e.g. forensic experts). Auditors must be able to identify indications of fraud and recognise patterns that are unusual in the industry. The main characteristics of the most common types of fraud (by region, industry and type of company) should be made available to the audit teams.
- Integrity: When accepting and continuing client relationships and engagements, greater weight is to be given to assessing the integrity of the management and board of directors of the audited entity²⁰. The FAOA notes that audit engagements are also accepted where persons of dubious reputation sit on the management or board. This increases the risk in areas such as: (i) increased recording of unusual transactions, (ii) biased alignment of estimated values and (iii) lack of reliability of written statements.
- Professional scepticism and cognitive bias: One cause of virtually all FAOA findings is the lack of professional scepticism during the audit²¹. Warning signs of fraud should not be ignored or trivialised and should be assessed with a heightened critical mindset. The audit team must also take into account the different types of potential bias when maintaining a critical mindset and exercising professional judgement²².
- Discussion among the engagement team: In an internal discussion during the planning phase, the audit team must clarify which items in the audited stand-alone and consolidated financial statements might be susceptible to material misstatement due to fraud and in what way²³. To adequately reflect the importance of the topic, this discussion should be led by the lead auditor with targeted questions. Explicit reference should be made to the possibility that the audited financial statements may be materially misstated due to fraud. The issues discussed and the impact on audit planning should be documented²⁴.
- Inquiry of the BoD: The audit team inquires of members of the BoD about how they oversee management's processes for identifying and controlling fraud risks. They are also asked whether they are aware of any existing, suspected or alleged fraud²⁵. Last but not least, these interviews serve to validate the answers from the management interviews. In order to increase the validity of the answers of the members of the board of directors, it is recommended to conduct these interviews only with non-executive members and in the absence of management²⁶. The topics covered, the statements made by the interviewees and the impact on the audit planning must be documented.

¹⁹ When auditing consolidated financial statements, the applicable points must also be considered with regard to component auditors.

²⁰ QS 1 / ISQC 1.26.c, A19 and A20.

²¹ PS 240.12 ff; ISA 240.13 ff.

²² IESBA Code of Ethics for Professional Accountants (CoE), para 110.1 A1 and para 120.12 A2.

²³ PS 240.15; ISA 240.16.

²⁴ PS/ISA 230.8.b and 10; PS 240.44.a; ISA 240.45.a. and Art. 10 ASV-RAB (Oversight Ordinance FAOA; ASV-RAB; SR 221.302.33). The specificity of the documentation of all fraud discussions, the subsequent assessment of fraud risk, the obtaining and evaluation of audit evidence are thereby positively influenced. This requirement for documentation applies to all fraud discussions.

²⁵ PS 240.20 f.; ISA 240.21 f.

²⁶ Examples of useful questions are given in the appendix.

- Inquiry of management: The audit team makes inquiries of management of the audited entity to understand (i) their assessment of the fraud risk, (ii) their process for identifying and responding to it, and (iii) whether they are aware of any existing, suspected or alleged fraud²⁷. The validity of such interviews is enhanced if they take the form of one-on-one oral interviews on site and, in particular, with the lead auditor. Interviews only by means of questionnaires filled out in writing by the management are less effective because the interviewee is supposed to answer spontaneously. It is also important to determine with a critical attitude which individuals in management should be interviewed. The FAOA recommends that senior management (CEO, CFO, Head of Accounting, Group Controller etc.) in particular should be interviewed²⁸. The timing, the topics discussed, the statements made by the persons interviewed and the impact on the audit planning must be documented.
- Inquiry of other persons: The informative value of questioning management about fraud risks is obviously considerably limited if they themselves are involved in the fraud²⁹. Studies also show that whistleblowers have an important role in detecting fraud³⁰. Consequently, the audit team should also increasingly question other persons about fraud. This includes persons responsible for risk and compliance management, the chief ethics officer or persons with a similar function, operational staff, employees at different levels of the hierarchy or employees who deal with complex or unusual business transactions³¹. The topics covered, the statements of the respondents and the impact on the audit planning shall be documented.
- Use of experts: It should be considered more often to involve an expert for the audit³². Ideally, they will be familiar with the standard audit procedure. The following aspects should be considered: (i) For audited entities with complex business models and/or several internationally significant components, for example, the forensic expert can provide valuable input in the discussion among the audit team which items of the financial statements might be susceptible to fraudulent financial reporting and in what way. The same applies to the design of audit procedures to address such risks. Personal participation in the aforementioned inquiries and the introduction of targeted questions increase the quality of the inquiry. As soon as the audit team discovers or suspects fraud during the audit, another person with special skills (e.g. forensic or IT expert) must always be involved or consulted³³. (ii) The IT expert can support the audit team during the risk assessment and in the conduct of the audit, for example with data analysis. In this way, entire data populations can be analysed for increased fraud risks and addressed with targeted audit procedures. The expert can also assist the audit team in reviewing the appropriateness of manual and automated journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements³⁴. (iii) In particular, for significant items in the financial statements and consolidated financial statements that are primarily comprised of estimated values³⁵, the involvement of other experts (e.g. valuation and tax experts) should be sought in order to reduce fraud risks.

²⁷ PS 240.17 f.; ISA 240.18 f.

²⁸ Examples of useful questions are given in the appendix.

²⁹ PS 240.A17; ISA 240.A18.

³⁰ 43% of fraudulent acts are uncovered by whistleblowers. 50%, 22%, 15% and 11% of these were employees of the companies concerned, customers, anonymous persons and suppliers respectively (cf. ACFE [footnote 14], p. 19).

³¹ PS 240.18, A15 f.; ISA 240.19, A16 f. The requirement to question internal audit is explicitly regulated in the auditing standard (PS 240.19; ISA 240.20). Examples of useful questions are listed in the appendix.

³² PS 240.29.a, A34 f.; ISA 240.30.a, A35 f.

³³ PS/ISA 220.18.

³⁴ PS 240.32.a; ISA 240.33.a.

³⁵ PS 240.32.b; ISA 240.33.b.

- Electronic data analysis: Audit teams are increasingly using computer-assisted audit techniques such as data analysis to identify anomalies and patterns that may indicate a fraud risk. The audited entity's financial reporting system is the primary source of data. Increased consideration should also be given to analysing internal data recorded in other systems or external data.
- Internal control system: The ICS also includes controls to prevent manipulation of the stand-alone and consolidated financial statements. These are to be critically examined by the audit team. The effects of any deficiencies in the design and, if applicable, the effectiveness of the controls are to be taken into account in the audit planning, and the management and the board of directors of the audited company are to be informed accordingly.
- Journal entries: As mentioned above³⁶, the FAOA identified various deficiencies regarding the audit of journal entries. When identifying and selecting journal entries and other adjustments for the audit, the following criteria should be considered³⁷: (i) The assessment of the risks of material misstatement due to fraud; (ii) Controls that have been implemented over journal entries and other adjustments; (iii) The entity's financial reporting process and the nature of evidence that can be obtained; (iv) The characteristics of fraudulent journal entries or other adjustments; (v) The nature and complexity of the accounts; (vi) Journal entries or other adjustments processed outside the normal course of business. The audit teams shall verifiably consider the above criteria when selecting journal entries. All selected journal entries and other adjustments should be examined. Consequently, no samples may be taken from the hit list (exception list). The journal entries and other adjustments shall be selected from the entire reporting period, if necessary, but at least at the end of the reporting period³⁸. If the latter is to be applied, then this period should include at least the last month of the financial year being audited. Furthermore, in all cases, bookings after the balance sheet date should be taken into account. The audit team must determine and justify the period based on its risk assessment.
- Revenue recognition: The audit team must presume that there are risks of fraud in revenue recognition. If the presumption is not applicable, the reasons for this must be documented³⁹. In the case of operating companies, the latter should only apply in exceptional cases.
- Audit evidence: This is more reliable if it comes from independent sources outside the audited company. The audit team must always maintain control over external confirmation requests⁴⁰. In some cases the FAOA found in its file reviews that this was not consistently maintained. Furthermore, the FAOA recommends that audit firms establish both quantitative (e.g. bank balances greater than performance materiality) and qualitative criteria for the selection of bank accounts for confirmation requests to ensure consistent quality in the performance of audits⁴¹. The following are some examples of qualitative criteria: (i) accounts with high volumes, suspicious or inconsistent transactions; (ii) design and effectiveness of the internal control system (e.g. electronic and physical signature authorisations); (iii) type of bank accounts (e.g. fiduciary accounts, banking relationships within the group); (iv) reputation and domicile of the banking institution. The FAOA further recommends that bank confirmations for all banking relationships that do not meet either the quantitative or qualitative criteria

³⁶ Front number 4.

³⁷ PS 240.32.a and A43; ISA 240.33.a and A44.

³⁸ PS 240.32.a and A44; ISA 240.33.a and A45.

³⁹ PS 240.26 and 47; ISA 240.27 and 48.

⁴⁰ PS/ISA 505.7.

⁴¹ QS/ISQC 1.32.a.

should be obtained over time (e.g. within three to five years); in particular, this also allows for the incorporation of a surprise element⁴²).

6. Outlook

The International Auditing and Assurance Standards Board (IAASB) decided in December 2021 to revise the auditing standard "Auditor's responsibilities for fraud" (ISA 240) with the following objective⁴³ : (i) To clarify the role and responsibilities of the auditor for fraud in an audit of financial statements. (ii) Promote consistent behaviour and identify more effective responses to identified risks of material misstatement arising from fraud. (iii) reinforce the importance, throughout the audit, of the appropriate exercise of professional skepticism in fraud-related audit procedures (iv) Enhance transparency on fraud-related procedures where appropriate, including strengthening communications with those charged with governance and the reporting requirements.

The FAOA welcomes the above initiative and will actively pursue the process.

⁴² PS 240.29.c; ISA 240.30.c.

⁴³ According to the IAASB, the revised standard (ISA 240 revised) is to be adopted in December 2024.

Appendix: Questions on fraud

The auditing standards (PS/ISA 240) require audit teams to conduct interviews with different groups of people⁴⁴.

Interviews must be carefully prepared so that the interviewer can ask direct, pertinent and relevant questions. This includes in particular the following points: (i) The study of all relevant documents. The most important documents should be taken to the interview for support. (ii) The preparation of guiding questions. This keeps the interview relevant and does not distract from the actual topic. The interview should not be a rigid question-answer session, but should remain flexible and address other relevant issues as they arise. Multi-part questions, hypothetical questions and leading questions should always be avoided.

During the interview, the following aspects in particular should be observed: (i) The reason for the interview should be explained to the interviewee at the outset (in particular with reference to the requirements of the auditing standards). (ii) In addition to the interviewer, another competent team member should participate in the interview. Conducting the interview, taking notes⁴⁵ and observing the body language of the interviewee cannot usually be done by one person.

The following are some questions that may be useful depending on the situation and the function of the interviewee (not exhaustive):

Questions to the (independent) members of the Board of Directors

1. How do you rate the corporate culture and values of the company? Where do you see potential for improvement in this respect? Is there a code of conduct? If not, why not? If yes: Have there been any violations of it and if so, what were the reasons and consequences? Does your company have a whistleblower hotline and if so, who is responsible for it and what reports were received? If not, why not?
2. How do you assess the recent accounting scandals? Could you imagine similar manipulations being committed in your company and if so, which ones specifically? In which areas and how high do you see the risk of manipulation of the accounting system or the stand-alone and consolidated financial statements, and on the basis of which incentives? Do you have knowledge of deficiencies in the ICS, in particular of the overriding of controls by management? Which accounts (e.g. those with estimated values) are most vulnerable to manipulation by an individual and how exactly would this manipulation be achieved? To what extent is management under pressure to meet targets? Are significant parts of management compensation contingent on the achievement of certain targets (especially revenue or performance-based compensation models or bonus components)? What are the expectations of third parties (shareholders, financial analysts, short-sellers, etc.)? Do you see a risk of management coming under pressure in this regard?
3. What processes are in place to detect manipulations of the stand-alone and consolidated financial statements in order to better (possibly worse) present the company's financial situation? How do you specifically monitor these processes? What controls have been designed and implemented to address fraud risks? In your view, does the ICS ensure that fraudulent financial reporting and the manipulations of the stand-alone and consolidated financial statements by the management as well as misappropriation of assets are prevented? What measures do you implement to ensure the integrity of management? Are you aware of any existing, suspected or alleged fraud in your company and if so, which ones?

⁴⁴ PS 240.17-21, 32.a; ISA 240.18-22, 33.a.

⁴⁵ Cf. also para. 5 and footnote 24 above.

4. How often and in what form (reporting, etc.) are you informed by management (and internal audit, if applicable) on the issue of fraud? Can you give us examples? What priority does the prevention and detection of fraud have for internal audit? When was the last time this was identified as an audit focus? What were the results of fraud reporting by management (and internal audit, if applicable) in the last three years? What measures were taken to remedy any deficiencies?
5. Did we forget to ask something that is important to you?

Questions for members of the management

6. How do you rate the corporate culture and values of the company? Where do you see potential for improvement in this respect? How do you deal with employees in general and in relation to the achievement of objectives? In what areas and with what frequency have you communicated your views on business conduct and ethical behaviour to employees? Is there a code of conduct? If not, why not? If yes, have there been any breaches of it and, if so, what were the reasons and consequences? Does your company have a whistleblower hotline and if so, who is responsible for it and what reports were received? If not, why not?
7. How do you assess the recent accounting scandals? Could you imagine similar manipulations being committed in your company and if so, which ones specifically and on the basis of which incentives? What other fraud risks do you see in your company? How do you assess the risk that the financial statements contain material misstatements due to fraud (including type, extent and frequency)? What impact do the risks of fraud have on the types of transactions, account balances (especially estimates) or financial statement disclosures and how exactly would this manipulation be achieved? In which areas of the company are there revenue- or performance-based remuneration models or bonus components? Do you see a risk of incentive to manipulate the stand-alone and consolidated financial statements in this respect? How do you see the risk of fraud in relationships and transactions with related parties? What are the expectations of third parties (shareholders, financial analysts, short-sellers, etc.)? Do you see a risk of this putting persons under pressure?
8. What processes are in place to detect misappropriation of assets or manipulation of the stand-alone and consolidated financial statements in order to better (or worse) present the financial position of the company? What controls have been designed and implemented to address fraud risks? What procedures are in place to approve and record non-routine or unusual transactions? How do you assess the reliability of the ICS?
9. How often and in what form (reports etc.) do you report to the board of directors about fraud risks? Can you give us an example?
10. Did we forget to ask something that is important to you?

Questions for internal auditors and other persons

11. How do you rate the corporate culture and values of the company? Where do you see potential for improvement in this respect? How is the interaction with employees in general and in relation to the achievement of goals? How do you rate the honesty of management and employees? Is there a code of conduct? If not, why not? If yes: Have there been any breaches of it and if so, what were the reasons and consequences? Does your company have a whistleblower hotline and if so, who is responsible for it and what reports were received? If not, why not?
12. How do you assess the recent accounting scandals? Could you imagine that similar manipulations of the accounting system, the stand-alone and consolidated financial statements or asset impairments are committed in your company and if so, which ones specifically and based on which incentives? What are the risks of fraud in your company or how would management manipulate the stand-alone and consolidated accounts, e.g. in order to achieve turnover and profit targets? Which accounts (e.g. those with estimated values) are most vulnerable if a person wanted to manipulate them and how exactly would this manipulation be achieved? How and by whom are estimates for the financial statements (e.g. accruals, valuations) determined? Do you believe that assumptions about estimates are neutral or rather overly optimistic in order to report more favourable earnings? In which areas of the company are there revenue- or performance-based remuneration models or bonus components? What are the expectations of third parties (shareholders, financial analysts, short-sellers, etc.)? Do you see a risk in this respect that management came under pressure? Were business transactions recorded although the prerequisites for recording were not met or the prerequisites were faked? Are you aware of any financial difficulties that would cause management to misstate revenue or profits?
13. What processes are in place to detect manipulation of the stand-alone and consolidated financial statements to better (or worse) present the financial position of the company? What controls have been designed and implemented to address the risks of fraud? In your view, does the ICS ensure that manipulations of the accounting and the stand-alone and consolidated financial statements by the management as well as misappropriation of assets are prevented? Do you have knowledge of existing, suspected or alleged fraud in your company and if so, which ones? Are you aware of any deficiencies in the ICS, in particular of the overriding of controls by management? Do you have knowledge or have you heard rumours that someone in management is cheating?
14. Did we forget to ask something that is important to you?

Questions for persons involved in the accounting process

15. How do you rate the corporate culture and values of the company? Where do you see potential for improvement in this respect? How is the interaction with employees in general and in relation to the achievement of goals? How do you rate the honesty of the management and the employees?
16. How do you assess the recent accounting scandals? Could you imagine similar manipulations being committed in your company and if so, which ones specifically? How would management manipulate the stand-alone and consolidated accounts in order to achieve e.g. turnover and profit targets? How high do you see the danger of manipulation of the accounting system, the stand-alone and consolidated financial statements or misappropriation of assets and on the basis of which incentives? In which areas of the company are there turnover- or performance-based remuneration models or bonus components? Which accounts (e.g. those with estimated values) are most vulnerable in case a person wants to manipulate them and how exactly would this manipulation be achieved? How and by whom are the estimates for

the financial statements (e.g. accruals, valuations) determined? Do you think that assumptions about estimates are neutral or rather too optimistic to show more advantageous earnings? What are the expectations of third parties (shareholders, financial analysts, short-sellers, etc.)? Do you see a risk of management coming under pressure in this regard? Were business transactions recorded although the prerequisites for recording were not fulfilled or the prerequisites were faked? Are you aware of any financial difficulties that would cause management to misstate revenue or profit? Have you been instructed to record or refrain from recording any unusual or inappropriate entries or are you aware of any such activities?

17. What processes are in place to detect manipulation of the stand-alone and consolidated financial statements to better (or worse) present the financial position of the company? What controls have been designed and implemented to address the risks of fraud? In your view, does the ICS ensure that manipulations of the accounting and the stand-alone and consolidated financial statements by the management as well as asset impairments are prevented? Are you aware of any deficiencies in the ICS, in particular the overriding of controls by management? Do you have knowledge of existing, suspected or alleged fraud in your company? Do you know or have you heard rumours that someone in management is cheating?
18. Did we forget to ask something that is important to you?