Supervisory Notice 1/2022

Consideration of fraud risks
in the provision of audit services

3 June 2022 (as at 21 October 2026)

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1. Introduction

Fraudulent acts (fraud) resulting in material misstatements in the stand-alone and consolidated financial statements[1] constitute an inherent risk in an audit. Audit teams must therefore consider the possibility of fraud during the audit so that they can respond appropriately to the associated audit risks.

Although the manipulation of financial reporting is rare, it occurs repeatedly and causes by far the highest median financial loss of all categories of offences[2].

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. It is aimed at audit firms under state oversight, 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 standards[3]. 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.

This version updates the original supervisory notice of 3 June 2022. It incorporates insights gained from the FAOA's ongoing supervisory activities.

2. General remarks on fraud

A fraudulent act is an intentional act with the aim of obtaining an unjust or illegal advantage by falsification or suppression (deception) of facts[4]. The fraudulent act may be committed by one or more persons from 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 act[5].

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1 The following considerations also apply, by analogy, to other audit services required by law. For simplicity, this document refers to the audit of stand-alone and consolidated financial statements.

2 Occupational Fraud 2026: A Report to the Nations. Association of Certified Fraud Examiners (ACFE). The report divides occupational fraud into asset misappropriation, corruption and financial statement fraud. Median losses for these categories are USD 100,000, USD 150,000 and USD 1,000,000 respectively. Financial statement fraud accounts for 6% of occupational fraud cases.

3 See FAOA Circular No. 1/2008 on the Recognition of auditing standards.

4 ISA-CH 240.12.

5 ISA-CH 240.A1.

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 management[6] and thus also for the prevention of fraud.

Nevertheless, at least part of the public assumes that the auditor must investigate all fraud risks and thus detect as many cases of fraud as possible. However, under the requirements of (inter)national auditing standards, the audit team must identify and assess only the risks of material misstatement in the stand-alone and consolidated financial statements due to fraud and respond to those risks with effective audit procedures[7]. This is also referred to as the expectation gap[8].

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. 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 would otherwise operate effectively and help prevent fraud[9].

Audit teams must therefore maintain a particularly high degree of professional skepticism throughout the audit[10]. 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) management assertions must be corroborated with additional, fact-based evidence; (iii) contradictory audit evidence must not be trivialised, relativised or dismissed without sufficient grounds in favour of management assertions or the audit team's initial expectations.

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 offences[11].

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6 Art. 716a para. 1 items 3 and 5 of the Swiss Code of Obligations (CO; SR 220).

7 ISA-CH 240.11.

8 More precisely, this is a combination of a knowledge gap, a performance gap and an evolution gap (see Association of Chartered Certified Accountants [ACCA] / Chartered Professional Accountants of Canada [CPA Canada], Auditing and Assurance Standards Board [ASSB] / Chartered Accountants Australia and New Zealand [CA ANZ], Closing the expectation gap in auditing: The way forward, London and other locations, 2021, pp. 10–11).

9 ISA-CH 240.32.

10 ISA-CH 240.13–15.

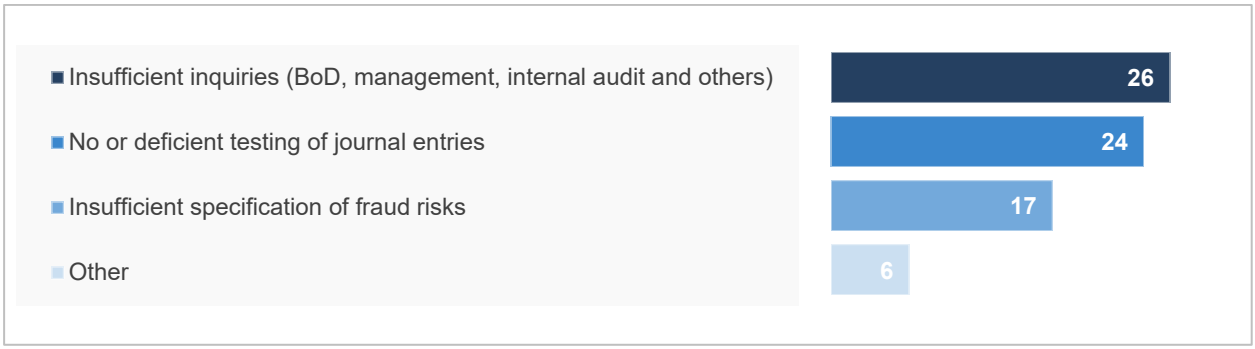
11 An external audit reduces the median loss by 33% and the duration of fraud by 20% (ACFE report, see footnote 2).

4. Findings from the FAOA reviews

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

Over the last five years (2021 to 2025), the FAOA conducted 153 file reviews[12], raising a total of 47 findings[13] on fraud audit procedures. A total of 73 deficiencies were identified. In the period from 2017 to 2021, 75 findings had been raised in 152 file reviews.

Fig. 1: Types and number of deficiencies in fraud audit procedures identified in file reviews from 2021 to 2025[14]



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 required topics that must be covered under auditing standards[15]. 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 is mandatory in response to the risk of management override of controls. The main deficiencies (individually or in combination) were: (i) the identification and selection of journal entries to be tested were not based on the characteristics of fraudulent journal entries or other adjustments. Other circumstances specified in the auditing standards were also not considered, or were considered only partially[16]; (ii) audit teams insufficiently examined the identified journal entries exhibiting characteristics of fraudulent entries, or their conclusions were not traceable; (iii) in some cases, no journal entries were tested at all. As a result, the risk of fraudulent financial reporting through management override of controls was not adequately addressed.

The third most common findings related to insufficient specification of fraud risks. In particular, the FAOA found that warning signs (fraud risk factors[17]) were ignored and not considered in the risk assessment. Examples include: (i) a doubtful reputation and corresponding business conduct of principal owners, 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 transactions, particularly with related parties. The resulting risk assessment left audit teams without a sufficient basis for tailoring audit procedures

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12 Regular, thematic and event-driven file reviews, including ad hoc inspections.

13 The findings comprise comment forms and other reportable findings. Only comment forms are included in inspection reports and annual reports.

14 A finding may comprise several deficiencies. The number of findings therefore differs from the number of deficiencies.

15 The appendix contains examples of questions tailored to the roles of the persons interviewed.

16 See the eleventh bullet point in section 5 below.

17 ISA-CH 240.12(b) and 25.

to the identified fraud risks. Standardised audit procedures designed to detect errors are often unsuitable for detecting fraud[18].

The findings from file reviews were mainly addressed through measures at the file level by adjusting the audit approach and scope. Recurring findings are also addressed at the firm level. Although the number of findings has decreased, it remains relatively high. The FAOA will therefore continue to focus on the auditor's responsibilities regarding fraud risks in the coming years.

5. Essential improvements[19]

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

- **Training:** Audit partners and staff should be trained annually, if possible, using practical examples, in identifying fraud risks (recognising warning signs[20]) and designing effective audit procedures, including the involvement of specialists (e.g. forensic experts).
- **Integrity:** When accepting and continuing client relationships and engagements, the integrity of the principal owners, management and board of directors of the audited entity must be critically assessed[21]. The FAOA repeatedly finds that audit engagements are accepted even where persons of dubious reputation are involved. This increases risks in areas such as: (i) unusual and complex transactions, particularly with related parties; (ii) biased accounting estimates; and (iii) unreliable written representations. If integrity is lacking, the client relationship must be declined or terminated.
- **Professional skepticism and cognitive bias:** One cause of virtually all FAOA findings is a lack of professional skepticism during the audit[22]. Warning signs of fraud must not be ignored or trivialised and must be assessed with heightened professional skepticism. The audit team must also consider the different types of potential bias when maintaining professional skepticism and exercising professional judgement[23]. Professional skepticism must be significantly increased where if the audit team suspects that documents have been manipulated or if statements made by the board of directors or management of the audited entity are contradictory. Professional skepticism must also be heightened when documents are missing, or management is unable to provide sufficient appropriate audit evidence. Further investigation beyond the usual audit procedures is required[24]. Missing documents or management's inability to provide sufficient appropriate audit evidence must not lead the audit team to accept less persuasive audit evidence[25]. Missing audit evidence may itself indicate fraud[26].
- **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 way[27]. 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

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18 ISA-CH 240.8.

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

20 See the examples of fraud risk factors in Appendix 1 to ISA-CH 240.

21 ISQM-CH 1.30(a)(i), A68 and A73.

22 ISA-CH 240.13 et seq.

23 IESBA Code of Ethics, 110.1 A1 and 120.12 A2.

24 ISA-CH 240.14 and 15.

25 ISA-CH 200.15 and A24.

26 See Appendix 3 to ISA-CH 240.

27 ISA-CH 240.16.

the audited financial statements may be materially misstated due to fraud. The issues discussed and the impact on audit planning must be documented[28].

- **Inquiry of the BoD:** The audit team asks independent members of the board of directors[29] how they oversee management's processes for identifying and responding to fraud risks. They are also asked whether they are aware of any actual, suspected or alleged fraud[30]. These interviews also serve to validate the answers from management interviews. To increase the reliability of the answers, it is recommended that the interviews take place in the absence of management[31]. The date, topics discussed, statements made or insights gained in each interview, and the impact on audit planning must be documented.
- **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 fraud[32]. 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 interviewed[33]. The timing, the topics discussed, the statements made or insights gained in each interview 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 are involved in the fraud[34]. Studies also show that whistleblowers have an important role in detecting fraud[35]. 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 transactions[36]. The topics covered, the statements made or insights gained in each interview 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 audit[37]. Ideally, they will be familiar with the auditing standards. 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

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28 ISA-CH 230.8(b) and 10; ISA-CH 240.45(a); Art. 10 of the FAOA Oversight Ordinance (ASV-RAB; SR 221.302.33). This has a positive impact on the specificity of the documentation of all fraud-related discussions, the subsequent assessment of fraud risks, and the obtaining and evaluation of audit evidence. This documentation requirement applies to all fraud-related inquiries.

29 Independent members of the board of directors are those who are not members of management (ISA-CH 240.21).

30 ISA-CH 240.21–22.

31 See the example questions in the appendix.

32 ISA-CH 240.18–19.

33 See the example questions in the appendix.

34 ISA-CH 240.A18.

35 43% of fraud cases are detected through tips. Of these, 55% come from employees, 21% from customers and 11% from suppliers (ACFE report, see footnote 2).

36 ISA-CH 240.19 and A16–A17. Internal audit is explicitly addressed in ISA-CH 240.20. See also the example questions in the appendix.

37 ISA-CH 240.30(a) and A35–A36.

procedures to address such risks. Personal participation of the forensic expert 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 consulted[38]. (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 fraud 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 statements[39]. (iii) In particular, for significant items in the financial statements and consolidated financial statements that are primarily comprised of estimated values[40], the involvement of other experts (e.g. valuation and tax experts) should be sought in order to respond appropriately to fraud risks.

- **Electronic data analysis:** Audit teams are increasingly using computer-assisted audit techniques, such as data analytics, to identify anomalies and patterns that may indicate fraud risks. The audited entity's systems relevant to financial reporting constitute the central data source. The use of these audit techniques should be further increased.
- **Internal control system:** The ICS also includes controls to prevent manipulation of the stand-alone and consolidated financial statements. The audit team must critically examine these controls. Deficient controls create opportunities for fraud[41]. The effects of any deficiencies in the design and, where applicable, effectiveness of controls must therefore be considered in audit planning and communicated to management and the board of directors of the audited entity.
- **Journal entries:** As mentioned above[42], the FAOA identified various deficiencies in the audit of journal entries. When identifying and selecting journal entries and other adjustments for testing, the following criteria must be considered[43]: (i) the assessment of the risks of material misstatement; (ii) controls implemented over journal entries and other adjustments; (iii) the entity's financial reporting process and the nature of available audit evidence; (iv) the characteristics of fraudulent journal entries or other adjustments; (v) the nature and complexity of the accounts; and (vi) journal entries processed outside the normal course of business. Audit teams must demonstrably consider these criteria when identifying and selecting journal entries. All identified journal entries and other adjustments exhibiting characteristics of fraudulent entries must be examined with heightened professional skepticism. Sampling from the hit list is therefore not permitted. Journal entries and other adjustments must, where necessary, be selected from the entire reporting period, but at least from the end of the period[44]. The period should cover at least the last month of the financial year under audit. In all cases, entries recorded after the balance sheet date should also be considered. The audit team must determine the period on a risk basis and justify its choice.

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38 ISA-CH 220.18.

39 ISA-CH 240.33(a).

40 ISA-CH 240.33(b).

41 See Appendix 1 to ISA-CH 240, under "Opportunities".

42 See section 4 above.

43 ISA-CH 240.33(a) and A44.

44 ISA-CH 240.33(a) and A45.

- **Revenue recognition:** The audit team must presume that there are risks of fraud in revenue recognition and evaluate which types of revenue give rise to such risks. If this presumption is rebutted, the reasons must be documented[45]. For operating companies, this should occur only in exceptional cases.
- **Audit evidence:** Audit evidence is more reliable when it comes from independent sources outside the audited entity. The audit team must always maintain control over the external confirmation process[46]. In some file reviews, the FAOA found that this requirement was not consistently met. To ensure consistent audit quality, the FAOA recommends that audit firms consider both quantitative[47] and qualitative[48] criteria when selecting bank accounts for external confirmation requests. It also recommends obtaining bank confirmations for all banking relationships that meet neither the quantitative nor the qualitative criteria over a defined period (e.g. three to five years). This also introduces an element of unpredictability[49].

6. Outlook

On 8 July 2025, the International Auditing and Assurance Standards Board (IAASB) published the revised ISA 240 on the auditor's responsibilities relating to fraud[50]. Significant changes were made in particular in the following areas[51]:

- Strengthening the exercise of professional skepticism throughout the audit of financial statements
- Clarifying and emphasising the auditor's responsibilities
- Strengthening ongoing communication throughout the audit with management and those charged with governance on fraud-related matters
- Applying a fraud lens when identifying and assessing risks
- Introducing robust work effort requirements when fraud or suspected fraud is identified
- Increasing transparency in the auditor's report regarding fraud-related key audit matters
- Expanding audit documentation requirements

ISA 240 (Revised) applies to audits of financial statements for periods beginning on or after 15 December 2026. Its incorporation into ISA-CH 240 (Revised) is planned for a later date.

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45 ISA-CH 240.27 and 48.

46 ISA-CH 505.7.

47 For example, bank balances exceeding performance materiality.

48 Examples of qualitative criteria include: (i) accounts with high transaction volumes or suspicious or inconsistent transactions; (ii) the design and effectiveness of the internal control system, including electronic and physical signature authorisations; (iii) the type of bank account, including fiduciary accounts and banking relationships within the group; and (iv) the reputation and domicile of the banking institution.

49 ISA-CH 240.30(c).

50 IAASB, ISA 240 (Revised), The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements, 2025.

51 IAASB, Fact Sheet, July 2025, p. 2.

Appendix: Questions on fraud

ISA-CH 240 requires audit teams to make inquiries of different groups of people[52].

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 notes[53] 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 fraudulent financial reporting, 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 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?
4. How often and in what form (reporting, etc.) are you informed by management (and internal audit, if applicable) on the issue of fraud? 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?

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[52] ISA-CH 240.18–22 and 33(a).

[53] See section 5 and footnote 28 above.

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

1. 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?
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 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?
3. 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?
4. How often and in what form (reports etc.) do you report to the board of directors about fraudulent activities? Can you give us an example?
5. Did we forget to ask something that is important to you?

Questions for internal auditors and other persons

1. 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?
2. How do you assess the recent accounting scandals? Could you imagine that similar fraudulent financial reporting or misappropriation of assets occurs 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?

3. 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?
4. Did we forget to ask something that is important to you?

Questions for persons involved in the accounting process

1. 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?
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? 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 fraudulent financial reporting 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?
3. 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?
4. Did we forget to ask something that is important to you?