

**Fraud – Example Auditor’s Reports in the United Kingdom and the Netherlands**

1. Staff went through several auditor’s reports that were published in the United Kingdom (UK) and the Netherlands given the developments related to transparency in reporting on fraud in these jurisdictions. See **Agenda Item 4, Section IV** for more information.
2. This supplement includes sections of UK and Dutch auditor’s reports related to fraud. Staff purposely included examples that show the broad range of auditor reporting on fraud to provide the Board with an overview of how auditors apply the existing requirements in these jurisdictions.
3. As noted in **Agenda Item 4**, the Fraud Task Force will reach out to users of financial statements to liaise on several alternatives as presented in **Agenda Item 4**. The Fraud Task Force intends to share the examples of recent fraud disclosures in UK and Dutch auditor’s reports (as included in this supplement) with users of the financial statements as well.

## United Kingdom

### Example 1<sup>1</sup>

#### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

#### **Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are those that relate to the reporting framework (IFRS, FRS 101, the UK Companies Act 2006 and UK Corporate Governance Code), the relevant tax compliance regulations in the jurisdictions in which the Group operates and the EU General Data Protection Regulation (GDPR).
- We understood how the Group is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the company secretary. We corroborated our enquiries through our review of board minutes and papers provided to the Audit and Risk Committee, correspondence received from regulatory bodies and attendance at all meetings of the Audit and Risk Committee, as well as consideration of the results of our audit procedures across the Group.

<sup>1</sup> <https://investors.vodafone.com/sites/vodafone-ir/files/2021-05/vodafone-annual-report-2021.pdf>

- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business including management and finance teams of the local markets designated as full and specified procedure scope locations, Head Office, the Audit and Risk Committee, the internal audit function, the Group legal function and individuals in the fraud and compliance department to understand where it considered there was susceptibility to fraud; and assessing whistleblowing incidences for those with a potential financial reporting impact. We also considered performance targets and their propensity to influence on efforts made by management to manage earnings or influence the perceptions of analysts. We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud, and how senior management monitors those programmes and controls.
- Based on our understanding, at a Group level our procedures involved: enquiries of Group management and those charged with governance, legal counsel, the corporate security team, the fraud investigation team and the whistleblowing and investigation team; journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions, based on our understanding of the business; and challenging the assumptions and judgements made by management in respect of significant one-off transactions in the financial year and significant accounting estimates as referred to in the key audit matters section above. At a component level, our full and specified procedure scope component audit teams' procedures included enquiries of component management; journal entry testing; and focused testing, including in respect of the key audit matter of revenue recognition. We also leveraged our data analytics capabilities in performing work on the purchase to pay process and property, plant and equipment balances, to assist in identifying higher risk transactions and balances, respectively, for testing.
- Where the risk was considered to be higher, including areas impacting Group key performance indicators or management remuneration, we performed audit procedures to address each identified fraud risk or other risk of material misstatement. These procedures included those on revenue recognition referred to in the key audit matter section above and testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

## Example 2<sup>2</sup>

### 10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [frc.org.uk/auditorsresponsibilities](http://frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### 11. Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

#### 11.1 Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- Our meetings throughout the year with the Group Head of Ethics and Compliance and reviews of bp's internal ethics and compliance reporting summaries, including those concerning investigations;
- Enquiries of management, internal audit, and the audit committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- The group's remuneration policies, key drivers for remuneration and bonus levels; and
- Discussions among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. The engagement team includes audit partners and staff who have extensive experience of working with companies in the same sectors as bp operates, and this experience was relevant to the discussion about where fraud risks may arise. The discussions also involved fraud experts from Deloitte's forensic accounting function in the Financial Advisory service line, who advised the engagement team of fraud schemes that had arisen in similar sectors and industries and participated in the initial fraud risk assessment discussions.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, UK Corporate Governance Code, IFRS as issued by the IASB and adopted by the EU, FRS 101, US Securities Exchange Act 1934 and relevant SEC regulations, as well as laws and regulations prevailing in each country in which we identified a full-scope component.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the group's operating licences, environmental regulations etc.

#### 11.2 Audit response to risks identified

As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations. We did identify two key audit matters relating to fraud risks, as described above, being the accounting for SCTs and Level 3 instruments

within T&S, and management override of controls. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house / external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and IRS; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

<sup>2</sup> <https://www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/investors/bp-annual-report-and-form-20f-2020.pdf>



Example 3<sup>3</sup>

## 5. Our ability to detect irregularities, and our response

### Fraud – identifying and responding to risks of material misstatement due to fraud

#### Fraud risk assessment

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. In this risk assessment we considered the following:

- Our meetings throughout the year with the Group Head of Risk, Group Head of Compliance and Group Head of Legal and reviews of Barclays' internal ethics and compliance reporting summaries, including those concerning investigations;
- Enquiries of operational managers, internal audit, and the Board Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud, including the appropriateness and impact of changes made to these controls in response to COVID-19;
- The Group's remuneration policies, key drivers for remuneration and bonus levels;
- Discussions among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. The engagement team includes audit partners and staff who have extensive experience of working with banks, and this experience was relevant to the discussion about where fraud risks may arise. The discussions also involved our own forensic specialists to assist us in identifying fraud risks based on discussions of the circumstances of the Group and Company, including consideration of fraudulent schemes that had arisen in similar sectors and industries. The forensic specialists participated in the initial fraud risk assessment discussions and were consulted throughout the audit where further guidance was deemed necessary.

#### Fraud risk communication

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the Group to component audit teams of relevant fraud risks identified at the Group level.

#### Fraud risks and our procedures to address them

We have identified six fraud risks which were communicated to specific component audit teams. The nature of these fraud risks is substantially unchanged from the prior year but the allocation of certain fraud risks to components has been updated. The fraud risks we identified are set out below:

- 1) Judgemental qualitative adjustments made to the ECL provision
- 2) The recognition and measurement of ECL impairment of individually assessed loans
- 3) The valuation of unobservable pricing inputs used in used to price level 3 fair value instruments
- 4) Cut-off of the recognition of revenue from investment banking advisory fees
- 5) Existence and accuracy of unconfirmed over-the-counter bilateral trades
- 6) The risk of management override of controls, common with all audits under ISAs (UK).

As required by auditing standards and taking into account our overall knowledge of the control environment, we perform procedures to address the above risks and the risk that Group and component management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements.

Our audit procedures included evaluating the design and implementation and operating effectiveness of relevant internal controls, assessing significant accounting estimates for bias, as well as substantive procedures to address the fraud risks.

These procedures also included identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation.

#### Incorporating unpredictability into our audit:

A requirement of the auditing standards is that we undertake procedures which are deliberately unexpected and could not have reasonably been predicted by Barclays' management.

As an example, we extended our testing of IFRS 9 models to include expanded testing on a number of lower risk models. We also increased the population of Level 3 financial instruments which we perform independent re-pricing over.

#### Link to key audit matters

Further detail in respect of the testing we perform over the fraud risks we have identified for ECL and fair value of financial instruments is included in the respective key audit matters sections 4.1 and 4.2 of this report, as the procedures relating to those estimates also address the risk of fraud.

### Laws and regulations – Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

#### Risk assessment

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements. For this risk assessment, matters considered included the following:

- our general commercial and sector experience;
- discussion with the directors and other management (as required by auditing standards);
- inspection of the Group's regulatory and legal correspondence;
- inspection of the policies and procedures regarding compliance with laws and regulations;
- relevant discussions with the Group's external legal counsel; and
- relevant discussions with the Group's key regulatory supervisors including the Prudential Regulation Authority, Financial Conduct Authority, Federal Reserve Board, Federal Deposit Insurance Corporation and the Joint Supervisory Team.

<sup>3</sup> <https://home.barclays/content/dam/home-barclays/documents/investor-relations/reports-and-events/annual-reports/2020/Barclays-PLC-Annual-Report-2020.pdf>

As the Group operates in a highly regulated environment, our assessment of risks of material misstatement also considered the control environment, including the entity's higher-level procedures for complying with regulatory requirements. Our assessment included inspection of key frameworks, policies and standards in place, understanding and evaluating the role of the compliance function in establishing these and monitoring compliance and testing of related controls around whistleblowing and complaints.

#### **Risk communication**

Our communication of identified laws and regulations risks was made throughout our team and we remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to component audit teams of relevant laws and regulations identified at Group level.

#### **Direct laws context and link to audit**

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly impact the financial statements including:

- financial reporting legislation (including related companies' legislation);
- distributable profits legislation; and
- taxation legislation (direct and indirect).

We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

#### **Most significant indirect law/regulation areas**

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's permission to operate in countries where the non-adherence to laws could prevent trading in such countries.

We identified the following areas as those most likely to have such an effect:

- Specific aspects of regulatory capital and liquidity
- Customer conduct rules
- Money laundering
- Sanctions list and financial crime
- Market abuse regulations
- Certain aspects of company legislation recognising the financial and regulated nature of the Group's activities.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. If a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

#### **Audit response**

In relation to the legal, competition and regulatory matters disclosed in note 26 we performed audit procedures which included making enquiries of Barclays internal counsel and inspection of minutes of meetings and regulatory correspondence. For a subset of these matters which we deem to be more significant we also made enquiries of external counsel and obtained legal confirmations from Barclays' external counsel.

In respect of regulatory matters relating to conduct risk our procedures included inspection of regulatory correspondence, independent enquiry of the Group's main regulators and performing audit procedures to respond to risks of material misstatement identified in recognised conduct provisions.

#### **Context of the ability of the audit to detect fraud or breaches of law or regulation**

Owing to the inherent limitations of an audit there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

## Netherlands

### Example 1<sup>4</sup>

#### **Audit response to the risk of fraud and non-compliance with laws and regulations**

We refer to chapters "How we manage risk" and "Responsible business" of the Annual Report, where management included its risk assessment. In chapter 'Supervisory Board Report' the Supervisory Board reflects on this.

As part of our audit, we have gained insights into the Company and its business environment, and assessed the Company's internal controls in relation to fraud and non-compliance.

These procedures included, among other things:

- inspecting and verifying the availability to employees of the Company's Code of Conduct for employees and suppliers and Speak Up Policy;
- assessing matters reported on the Company's incidents register and its procedures to investigate indications of possible fraud and non-compliance;
- assessed other positions held by management and other employees and paid special attention to procedures and governance/compliance in view of possible conflicts of interest;
- evaluated investigation reports on indications of possible fraud and non-compliance;
- evaluated correspondence with supervisory authorities and regulators as well as legal confirmation letters;
- performing relevant inquiries with management, the Audit Committee of the Supervisory Board and other relevant functions, such as Internal Audit and Legal.

#### **Non-compliance with laws and regulations**

We, together with our forensics specialists, evaluated the non-compliance risk factors to consider whether those factors indicate a risk of material misstatement in the financial statements.

Based on the procedures listed above we identified the legal and regulatory frameworks that are most likely to have a potentially material effect on the financial statements:

- Export legislation (reflecting the Company's global customer base);
- Information protection legislation (reflecting the Company's significant number of patents and research and development expenditures);
- Employment legislation (reflecting the Company's significant and geographically diverse work force, including General Data Protection Regulation).

Our audit procedures did not reveal indications or reasonable suspicion of non-compliance that are considered material to the financial statements.

#### **Fraud**

Together with our forensics specialists we identified fraud risk factors and evaluated if those factors indicate a risk of material misstatement in the financial statements.

In line with the presumed risks laid down in the auditing standards we identified fraud risks with respect to revenue recognition and management override of controls, of which the first is described as part of our key audit matter.

#### **Presumed risk of management override of controls**

Management is in a unique position to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identified this risk primarily in the areas where judgment is involved as management may rationalize unrealistic or unreliable assumptions used in developing estimates in relation to inventory valuation, deferred tax assets and share based payments.

#### **Our response**

We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness of internal controls that mitigate fraud risks, such as processes related to journal entries and estimates.

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<sup>4</sup> <https://www.asml.com/-/media/asml/files/investors/financial-results/a-results/2021/asml-annual-report-ifs-2021-egxdm5.pdf?rev=9707cb4069164e3086e0a512d87f93b1>

In cooperation with forensic specialists and IT auditors, we performed a data analysis of high-risk journal entries and evaluated key estimates and judgments for bias by the Company's management, including retrospective reviews of prior years' estimates with respect to revenue recognition (we refer to key audit matter), inventory valuation, valuation of the deferred tax assets and share based payments. Where we identified instances of unexpected journal entries or other risks through our data analysis, we performed additional audit procedures to address each identified risk, including testing of transactions back to source information.

We incorporated elements of unpredictability in our audit, including selecting increased sample sizes for control testing and performing data analyses on selected balance sheet and profit and loss balances to identify possible increased fraud risks.

**Our observation**

Our audit procedures did not reveal indications or reasonable suspicion of fraud that are considered material to the financial statements.



Example 2<sup>5</sup>

## Audit approach fraud risks

We identified and assessed the risks of material misstatements of the financial statements due to fraud. During our audit we obtained an understanding of Alfen and its environment and the components of the system of internal control, including the risk assessment process and management's process for responding to the risks of fraud and monitoring the system of internal control and how the supervisory board exercises oversight, as well as the outcomes. We refer to section Risk management and control systems of the report of the management board for management's board fraud risk assessment.

We evaluated the design and relevant aspects of the system of internal control and in particular the

fraud risk assessment, as well as among others the code of conduct and whistle blower procedures. We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness, of internal controls designed to mitigate fraud risks.

As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption. We evaluated whether these factors indicate that a risk of material misstatement due to fraud is present.

We identified the following fraud risks and performed the following specific procedures:

### Identified fraud risk

### Our audit work and observations

#### The risk of management override of controls

In all our audits, we pay attention to the risk of management override of controls, including risks of potential misstatements due to fraud based on an analysis of potential interests of management.

In this context, we paid attention to:

- estimates in the valuation of construction contracts;
- judgements applied in the capitalisation of development costs;
- manual journal entries.

Where relevant to our audit, we evaluated the design of the internal control measures that are intended to mitigate the risk of management override of controls and assessed the effectiveness of the measures in the processes of generating and processing journal entries and making estimates. We also paid specific attention to the access safeguards in the IT system and the possibility that these lead to violations of the segregation of duties. We conclude that, in the context of our audit, we could rely on the for this risk relevant measures of internal control.

We performed data analysis of high-risk journal entries. Where we identified instances of unexpected journal entries or other risks through our data analytics, we performed additional audit procedures to address each identified risk. We also conducted specific audit activities for these entries, as part of which we paid attention to significant transactions outside the normal course of business.

We evaluated key estimates and judgements for bias by the management board of Alfen, including retrospective reviews of prior year's estimates related to important estimates of the management board, including the valuation of construction contracts and capitalisation of development costs.

<sup>5</sup> <https://alfen.com/sites/default/files/media/documents/Alfen%20Annual%20Report%202021.pdf>

## Identified fraud risk

## Our audit work and observations

We also refer to the key audit matters including our audit work and observations. These procedures also included testing of transactions using inspection to source documents.

We considered the outcome of our other audit procedures and evaluated whether any findings or misstatements were indicative of fraud.

Our procedures did not identify any material misstatement in the information provided by the management board in the financial statements and the report of the management board compared with the financial statements.

Our procedures did not lead to specific indications of fraud or suspicions of fraud with respect to management override of controls.

## The risk of fraudulent financial reporting due to overstating the revenues

Alfen's objective is to grow, to be innovative in energy products and to realise increase in revenue/results in the future in order to increase shareholder's value. In general, there might be pressure on management to achieve results and increase market share, creating an incentive for management to overstate revenues.

Where relevant to our audit, we evaluated the design and effectiveness of the internal control measures related to revenues and in the processes for generating and processing journal entries related to the revenues. We conclude that, in the context of our audit, we could rely on the for this risk relevant measures of internal control.

We selected journal entries based on risk criteria and performed specific audit procedures for these entries, as part of which we also paid attention to significant transactions outside the normal course of business.

We selected a sample of revenues transactions and reconciled these to the contracts or orders, the sales invoices, the shipping documents and the payments. In addition, we evaluated the performance indicators as included in the contracts of Alfen and the accurate recognition of the revenues overtime versus point-in-time.

Our procedures did not identify any material misstatement in the information provided by the management board in the financial statements and the report of the management board compared with the financial statements.

Our procedures did not lead to specific indications of fraud or suspicions of fraud with respect to accuracy and existence/occurrence of revenue.

We incorporated elements of unpredictability in our audit. We also considered the outcome of our audit procedures and evaluated whether any findings were indicative of fraud or noncompliance. We considered available information and made enquiries of management, legal and relevant key staff members involved in the sales and purchasing process.

Example 3<sup>6</sup>

**Audit approach fraud risks**

We identified and assessed the risks of material misstatements of the financial statements due to fraud. During our audit we obtained an understanding of the Company and its environment and the components of the system of internal control, including the risk assessment process and management's process for responding to the risks of fraud and monitoring the system of internal control and how the supervisory board exercises oversight, as well as the outcomes. We refer to section 1.4, 2.1.1 and 3.6 of the annual report where the Management Board reflects on its response to fraud risk.

We evaluated the design and relevant aspects of the system of internal control and in particular the fraud risk assessment, as well as among others the code of conduct, whistle blower procedures and incident registration. We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness, of internal controls designed to mitigate fraud risks.

As part of our process of identifying fraud risks, we, in co-operation with our forensic specialists, evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption. We evaluated whether these factors indicate that a risk of material misstatement due to fraud is present.

We identified the following fraud risks and performed the following specific procedures:

Identified fraud risks	Our audit work and observations
Management override of controls	
In all our audits we pay attention to the risk of management override of controls, including the risk of potential misstatements as a result of fraud based on an analysis of interests of management.	Where relevant to our audit, we evaluated the design of the internal control measures that are intended to mitigate the risk of management override of controls and assessed the effectiveness of the measures in the processes generating journal entries, making estimates, and monitoring projects.
In this context we paid specific attention to this risk at the transaction level of revenue and construction contracts given the estimates and judgements involved.	We also paid specific attention to the access safeguards in the IT system and the possibility that these lead to violations of the segregation of duties.
We paid attention to the impact of COVID-19 on the effectiveness of internal controls.	Due to COVID-19 we performed specific testing around the effectiveness of internal control measures, as well as having multiple discussions with management around potentially impacted areas.
	We concluded that we, in the context of our audit, could rely on the internal control procedures relevant to this risk.
	We performed journal entry testing procedures on the following criteria: unexpected account combinations, unusual words and unexpected users. With respect to journal entries, we also tested transactions outside of the ordinary course of business where applicable. In addition, we also tested manual consolidation adjustments.

<sup>6</sup> <https://www.sbmoffshore.com/sites/sbm-offshore/files/documents/2022/sbm-annual-report-2021.pdf>

Identified fraud risks	Our audit work and observations
	<p>With regard to management's accounting estimates, we evaluated key estimates and judgements for bias, including retrospective reviews of prior year's estimates. We performed substantive audit procedures for the estimates in revenue and construction contracts.</p> <p>Our audit procedures did not lead to specific indications of fraud or suspicions of fraud with respect to management override of internal controls.</p>
<b>Risk of fraud in revenue recognition – construction contracts</b>	
<p>Given the listed status of SBM Offshore N.V., the significant shareholdings of management in SBM Offshore N.V. as a result of share-based payment plans and financial targets for management, the complex nature of the Company's construction contracts and the significant judgements and estimates, the revenue recognition of construction contracts was particularly subject to the risk of a material misstatement due to fraud.</p> <p>The determination of the turnkey result based on over time recognition is an exercise requiring significant judgement and management could use this estimate in order to manipulate the figures to shift results to upcoming year(s). Due to this, we deem the risk significant for the cut-off assertion for revenue.</p>	<p>Where relevant to our audit, we assessed the design of the internal control measures and the effectiveness of these measures in the processes for recording costs and revenues relating to construction contracts. This includes project forecasting, measurement of the progress towards complete satisfaction of the performance obligation to determine the timing of revenue recognition and the Company's internal project reviews. We concluded that we, in the context of our audit, could rely on the internal control procedures relevant to this risk.</p> <p>With respect to the satisfaction of the performance obligations over time and the cut-off for individual projects under construction we examined, discussed, and challenged project documentation on the status, progress and forecasts with those charged with governance, management, finance and technical staff of the Company. We evaluated and substantiated the outcome of these discussions by examining modifications of contracts such as claims and variation orders between the Company, subcontractors and clients and responses thereto. In addition, we performed substantive procedures such as a detailed evaluation of forecasts and ongoing assessment of management's judgement on issues, evaluation of budget variances and obtaining corroborating evidence, evaluation of project contingencies and milestones and recalculation of the progress towards complete satisfaction of the performance obligation. In addition, we evaluated indications of possible management bias.</p> <p>We performed look-back procedures as part of our risk assessment procedures by comparing the estimates included in the current projects with past projects of similar nature as this provides insight in the ability of management to provide reliable estimates. Based on the look-back procedures we did not identify any additional risks.</p> <p>In addition, at the end of the year, we conducted specific substantive audit procedures regarding the cut-off of construction contracts to determine that there were no shifts in results per individual project and/or between the current and next financial year.</p> <p>Finally, we selected journal entries based on specific risk criteria and performed substantive audit procedures during which we also paid attention to significant transactions outside the normal course of business.</p> <p>Our audit procedures did not identify any material misstatements in the information provided by management in the financial statements and the management report compared with the financial statements.</p> <p>Our audit procedures did not lead to specific indications of fraud or suspicions of fraud with respect to management override of internal controls.</p>



Identified fraud risks	Our audit work and observations
<b>Risk of fraud in revenue recognition – lease and operate</b>	
<p>Although the lease contracts and many of the operate contracts itself specify specific day-rates per vessel and periodic operating fees (and therefore the revenue is very predictable and relatively certain) there are elements in which management could manipulate the lease and operate revenue, such as the recognition of maluses.</p> <p>We consider accuracy, existence and occurrence as assertions relevant for the risk of fraud in revenue recognition for lease &amp; operate revenues.</p>	<p>Where relevant to our audit, we assessed the design of the internal control measures and the effectiveness of these measures in the processes for recording costs and revenues relating to the lease and operate contracts. This includes gaining an understanding of the underlying contracts, malus arrangements and key performance indicators like up- and downtime to determine the possible impact on the revenue recognition. We concluded that we, in the context of our audit, could rely on the internal control procedures relevant to this risk.</p> <p>With respect to the satisfaction of the performance obligations for individual contracts, we examined, discussed, and challenged SBM Offshore N.V. on the recognition of maluses with management, finance, and technical staff of the Company. We evaluated and substantiated the outcome of these discussions by examining recognized claims and maluses by the Company and responses thereto, performing substantive procedures such as obtaining corroborating evidence, evaluation of vessels report. In addition, as part of our substantive audit procedures we evaluated indications of possible management bias.</p> <p>Finally, we selected journal entries based on specific risk criteria and performed substantive audit procedures in which we also paid attention to significant transactions outside the normal course of business.</p> <p>Our audit procedures did not identify any material misstatement in the information provided by management in the financial statements and the management report compared with the financial statements.</p> <p>Our audit procedures did not lead to specific indications of fraud or suspicions of fraud with respect to management override of internal controls.</p>
<b>Risk of bribery and corruption</b>	
<p>The company operates in countries with a higher risk of corruption based on the Corruption Perception Index of Transparency International. For this reason, we paid particular attention to the risk of the payment of bribes by and at the initiative of agents in transactions concluded using agents.</p>	<p>Where relevant to our audit, we assessed the design and effectiveness of the internal control measures with respect to contracts with clients and agents and the review of the work by agents. We concluded that we, in the context of our audit, could rely on the internal control procedures relevant to this risk.</p> <p>We held various meetings with management and other SBM Offshore N.V. staff to discuss the risk of bribery and corruption. Amongst others we spoke to the group compliance and legal director, internal audit director, CFO, CGCO and CEO. We assessed that no new contracts with agents have been agreed in 2021.</p> <p>Amongst others we performed the following procedures:</p> <ul style="list-style-type: none"> <li>■ Where applicable, we evaluated minutes of meetings held to validate transactions with agents and by agents itself;</li> <li>■ We assessed whether the commission is calculated correctly, paid correctly and completely to a bank account held by the agent as well as whether the transactions are at arm's length;</li> <li>■ Evaluated internal audit reports and internal reporting's to the audit committee;</li> </ul>

Identified fraud risks	Our audit work and observations
	<ul style="list-style-type: none"> <li>Reviewed whistleblower notifications and follow up procedures by management.</li> </ul> <p>Finally, we selected journal entries based on specific risk criteria and performed substantive audit procedures in which we also paid attention to significant transactions outside the normal course of business.</p> <p>Our audit procedures did not identify any material misstatement in the information provided by management in the financial statements and the management report compared with the financial statements.</p> <p>Our audit procedures did not lead to specific indications of fraud or suspicions of fraud with respect to the risk of bribery and corruption.</p>

We incorporated elements of unpredictability in our audit. We also considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud or noncompliance.