**Sample letter: Inform management and/or those charged with governance about indications of fraud**

Name and address of client

Subject: Indications of potential irregularities/fraud

During our engagement to **<description of assignment (for example, audit the annual account 20XX) >** for **<name of client>,** **you informed us about/we encountered indications** of potential irregularities, which include fraud in relation to **<description>[[1]](#footnote-1)**.

Considering the above, we are – under (EU) Regulation no. 537/2014[[2]](#footnote-2)/the Audit Firms (Supervision) Act (Wta), the Dutch Accounting Firms Oversight Act (Bta) [[3]](#footnote-3) and Dutch auditing standards (Standard 240: fraud-related responsibilities of accountants when auditing financial statements and/or Standard 250[[4]](#footnote-4): considering laws and regulations when auditing financial statements) – obligated to report such indications to you and perform additional auditing activities.

Additional audit activities must be carried out under applicable laws and regulations and in accordance with our engagement to **<description of assignment (for example, audit the annual account 20XX)**. [**If applicable: Wherever possible, this will involve using investigations that have already been carried out by you/<Name> in order to determine the nature and scope of (potential) irregularities.**]

If the investigation is carried out by another party,[[5]](#footnote-5) it would be best to involve <**name audit firm**> when formulating the additional investigation engagement to **<description of assignment (for example, audit the annual account 20XX)**. It is also necessary for <**name audit firm**> to read the report that has been written about the additional investigation. If we are unable to read relevant findings from the additional investigation, or if the additional investigation does not meet applicable requirements, this could possibly have consequences for the additional audit activities that we must carry out. Due to our professional code of conduct, we cannot allow audit-related information to be limited when lawyers decide to invoke their duty of confidentiality, which includes professional privilege.

If <**name audit firm**> has to perform the investigation into potential irregularities, we will compile a separate engagement letter in this case. This fraud investigation will be carried out while respecting applicable laws and regulations (it may thus be relevant to implement the NBA guide for personal investigations).[[6]](#footnote-6)

We will also be evaluating the corrective measures that you have taken or will be taking.

We will inform you about the results of our activities as soon as possible. We should mention that additional audit activities are not aimed at passing judgement on the performance, actions or failings of persons and/or parties. The results of our activities cannot be used for these purposes.

**Optional:** If and in so far as we release a separate written report about the additional audit activities, this will only be intended for <**client**>. We want to emphasise that such a report will only be distributed to the aforementioned persons or parties. The report cannot be shared with third parties (internally or externally), or in any way disclosed and fully or partly quoted, without consent from <**name audit firm**>. It is also not permitted to refer to this report. Third parties cannot claim any rights from (parts or contents of) this report.

Due to requirements within the standards, we cannot issue the auditor’s report before the audit (including the announced additional investigation, which must have been sufficiently completed) is completed and it has been confirmed that the **<annual account / subject of the investigation>** does not contain material abnormalities that can be attributed to fraud or errors.

**Optional:** Costs associated with additional audit activities will be billed to you separately.

Yours faithfully,

**<name audit firm>**

1. Irregularities can relate to fraud and/or failure to comply with laws and regulations. [↑](#footnote-ref-1)
2. The [EU regulation](http://eur-lex.europa.eu/legal-content/NL/TXT/HTML/?uri=CELEX:32014R0537&from=NL) applies to PIE’s; article 7 applies if irregularities are suspected (including fraud in financial statements). Article 12 applies to material breaches of legal or administrative provisions that govern approval for the specific activities of PIE’s. Article 12 also applies to companies with close ties to PIE’s that are subject to statutory audits. The EU regulation applies to financial years that start on or after 18 June 2016. [↑](#footnote-ref-2)
3. The [Wta](http://maxius.nl/wet-toezicht-accountantsorganisaties/artikel26/)/[Bta](http://maxius.nl/besluit-toezicht-accountantsorganisaties/artikel37) applies to statutory audits, not PIE’s. If a PIE/other statutory audit is not involved, reference must only be made to Standard 240/250 and reference to the EU regulation/ Wta and Bta should be removed. [↑](#footnote-ref-3)
4. COS 250.19 states that non-compliance must be evaluated based on material risks (further explained in paragraph A and similar to COS 240.36 and COS 240.37). [↑](#footnote-ref-4)
5. This refers to investigations performed (internally or externally) by clients. [↑](#footnote-ref-5)
6. Applicable if the client asks the auditor to do this. In this case, the auditor must evaluate threats to the principles of the VGBA (for example, threat of self-evaluation). [↑](#footnote-ref-6)