

Audit Committee Forum

Position Paper 4

**Guidelines for the Audit
Committee's assessment
and response to the Risk
of Fraud**

October 2016

About the Audit Committee Forum

Recognising the importance of Audit Committees as part of good Corporate Governance, the Mauritius Institute of Directors (MlOD) and KPMG have set up the Audit Committee Forum (the Forum) in order to help Audit Committees in Mauritius, in both the public and the private sectors, improve their effectiveness.

The purpose of the Forum is to serve Audit Committee members and help them adapt to their changing role. Historically, Audit Committees have largely been left on their own to keep pace with rapidly changing information related to governance, risk management, audit issues, accounting, financial reporting, current issues, future changes and international developments.

The Forum provides guidance for Audit Committees based on the latest legislative and regulatory requirements. It also highlights best practice guidance to enable Audit Committee members to carry out their responsibilities effectively. To this end, it provides a valuable source of information to Audit Committee members and acts as a resource to which they can turn for information or to share knowledge.

The Forum’s primary objective is thus to communicate with Audit Committee members and enhance their awareness and ability to implement effective Audit Committee processes.

Position Paper series

The Position Papers, produced periodically by the Forum, aim to provide Board directors and specifically Audit Committee members with basic best practice guidance notes to assist in the running of an effective Audit Committee.

This **Position Paper 4** deals with the Guidelines for the Audit Committee’s assessment and response to the risk of fraud.

Previous Position Papers issued:

- Position Paper 1 (July 2014) sets out the essential requirements that should be complied with by every Audit Committee in accordance with the National Code of Corporate Governance.
- Position Paper 2 (May 2015) sets out how the Audit Committee can accomplish its duties through a collaborative relationship with two of the Assurance Providers, notably Internal and External Auditors.
- Position Paper 3 (December 2015) deals with the Audit Committee’s role in control and management of risk.

Current Members of the Forum

Collectively, the Forum is made up of the following members drawn from diverse professional backgrounds with significant experience in both the private and the public sectors.

Gujadhur Anil - Chairman	Koenig Fabrice
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Introduction



Fraud can produce devastating effects on businesses. It cannot therefore be dismissed as a potential one-off risk and treated as a remote possibility. Despite an increasing multiplicity of safeguards put in place, the recurrence of fraud in one location after another, indicates that only a proactive approach adopted by persons in charge of dealing with it can help mitigate its risk. An Audit Committee would be loath to endorse the correctness of financial statements which are later found out to be tainted with fraud. It is one reason why Audit Committees should be ever on the alert about potential elements of fraud.

Fraud is generally defined as any intentional act or omission to deceive others, resulting in the victim suffering a loss and/or the perpetrator achieving a gain. Fraud can create significant financial losses very quickly, but more importantly it can undermine the trust that our customers, employees, investors, partners and suppliers have in us.

Sophisticated technologies and increasingly complex global enterprises, transactions and financial reporting processes have added to the scope of businesses but they have also expanded opportunities for fraud in a variety of areas.

Three conditions are found to increase the likelihood of fraud: (i) incentives and/or pressure, (ii) opportunities, and (iii) attitudes (e.g. lack of integrity, transparency, arrogance etc.). These may be triggered by a myriad of factors, including some

of the following main ones, besides further examples of fraud risk factors listed in Appendix 2:

- Inappropriate “tone at the top”
- Poor human resources screening processes during recruitment
- Weak internal controls
- Unquestioned and/or excessive authority in the hands of one or two senior executives
- Management compensation linked too closely to short-term financial results
- Poorly managed and poorly paid employees
- Lack of a comprehensive compliance programme.



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Responsibilities

It is important to have dedicated persons responsible for tracking down and dealing effectively to thwart attempts at fraud in the organisation. The Audit Committee will address itself directly to such identified persons to draw comfort from them specifically that any observed departure from normal trends is not due to fraud. It will be free however to raise any concerns it may have in this regard with

persons who are not directly assigned the responsibility for dealing with potential cases of fraud.

The responsibilities of company officials, external parties as well as Fraud Investigation team and Internal Audit function are summarised in the diagram below:

Responsibilities of Company Officials in Fraud Detection



Direct responsibility for anti-fraud efforts would generally reside with a member of the senior management team, such as the Chief Financial Officer or another officer with specific anti-fraud compliance duties. This person would be responsible for co-ordinating the organisation's approach to the prevention of fraud and misconduct, detection and response without cluttering up the operational efficiency of the organisation. When suspicions of fraud and irregularity arise, this responsible person can draw together the right resources to deal with the problem and make necessary operational changes to ward off the danger and maintain a record of issues which gave rise to concerns.

The Audit Committee should keep itself fully in the picture about such matters as soon as an element of fraud is suspected in any area of activity to satisfy itself that appropriate comprehensive corrective action is taken at the earliest possible.

The Compliance Officer (or any Officer with relevant duties) may also co-ordinate the organisation's risk assessment efforts in this area by:

- Establishing policies and maintaining standards of acceptable practice;
- Overseeing the design and implementation of the institution's anti-fraud programmes and controls; and
- Reporting to the Board and/or Audit Committee on the results of the institution's fraud risk management activities.

The Internal Audit function is a key participant in anti-fraud activities, supporting management's approach to preventing, detecting and responding to fraud and irregularity.

Integrity and independence of team members of Internal Audit in carrying out their work is of primordial importance.

Typically, Internal Audit is tasked with:

- Planning and evaluation of the design and operating effectiveness of anti-fraud controls;
- Assisting in the fraud risk assessment and helping to draw conclusions as to appropriate mitigation strategies; and

- Reporting to the Audit Committee on internal control assessments, audits, investigations and related activities, and if necessary, privately.

The External Auditors have a duty to report to those charged with governance (usually the Audit Committee) any serious weaknesses, fraud, irregularities or internal control breakdowns they come across in the normal course of their duties.

It should be standard practice for the External Auditor to meet annually with the Audit Committee members, typically at the audit planning stage and at the end of the audit prior to sign-off of the financial statements.

It is further recommended that the Audit Committee meets with the External Audit Partner separately in the absence of Management at least once a year. Having a private session with External Audit representatives provides an important opportunity for the Audit Committee to raise issues, ask questions and seek feedback from External Audit in the absence of Internal Audit and/or Management, as and when necessary.



What is the role of the Audit Committee?



With the increased awareness of fraud risks – and their financial, legal and reputational consequences – Audit Committees are re-evaluating their role, responsibilities, relationships and practices with a view to enhancing oversight of the financial reporting process in general and, in particular, the areas that present the greatest risk of fraud.

In terms of the revised International Standard on Auditing (ISA) 240: *The auditor's responsibility to consider fraud in an audit of financial statements*, it is primarily the responsibility of management, along with the oversight of those charged with governance, to place a strong emphasis on fraud prevention and to establish and maintain internal controls to prevent and detect fraud. But certain managements do not always assume this responsibility with the earnest it calls for and are sometimes even involved in concealing certain facts which may occasion fraud.

This kind of risk heightens independent oversight which an Audit Committee should exercise to overcome any managerial shortcomings towards monitoring closely the fraud risk factor.

The Audit Committees thus play a prominent role in overseeing investigations into significant fraudulent actions, and ensuring that due processes are followed. ISA 240 requires those charged with governance, e.g., the Audit Committee, to consider and contain the potential for Management to deliberately override controls or exert other inappropriate influence over the financial reporting process.

The Audit Committee may also be charged with overseeing the overall risk management approach of the organisation. In such a case, it will ensure that there exists an environment conducive to preventing, detecting and mitigating fraud risks. In the event the Audit Committee is also charged with overall risk management, they may refer the responsibility for setting up and maintaining such an environment to their Risk Committee, without thereby absolving Management from its primary responsibility to place appropriate controls and monitor their regular implementation on a day-to-day basis.



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Audit Committee approaches to fraud risk oversight

Audit Committees are taking a variety of approaches to satisfy their oversight of management's process of preventing, detecting and reporting corporate fraud. This is done by reference to, amongst others:

- Regular and on-going assessment of fraud risks at the level of the organisation
- Continuing company education and training to keep alive and enhance awareness/detection of fraud at early stages
- New or enhanced "whistle-blower" policies and procedures
- Employment of additional resources and tools to assist with fraud prevention and detection efforts, such as Internal Audit, a dedicated fraud prevention team, as well as use of fraud-tracking and monitoring software
- A detailed fraud response or mobilisation action plan to arrest and/or minimize adverse impact of fraud on the organisation in case of emergencies
- Regular assessment of the entity's insurance cover
- A regularly updated fraud prevention plan
- Learning from reported fraud events in other companies to avert similar risks in the company
- Independently sourced information from external parties on due diligence.

For a Group, it will usually be necessary for the Audit Committee of the parent company (the Group Audit Committee) to review issues that relate to significant subsidiaries or activities carried out by the Group. Consequently, the parent Board should ensure that there is adequate cooperation within the Group (and with Internal and External Auditors of individual companies within the Group) to enable the Group Audit Committee to discharge its responsibilities effectively. To the extent possible, it is advisable for a Group Audit Committee member to also sit on the Audit Committee of significant subsidiaries.



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Effective fraud risk management

It is the role of the Audit Committee to ensure that the organisation is equipped with appropriate fraud risk management tools and practices. It should ensure the pragmatic implementation of good practices to ward off risks of fraud. For example, it should ascertain whether all sensitive areas (e.g. handling of cash and valuables) are always submitted to the 'four eyes' principle at least, thus insulating the company from risk exposure to one or a couple of ill-intentioned complicit officers.

Fraud risk management is an essential part of good business practices. Having policies in place to prevent, detect and respond to fraud is crucial, although their success is dependent upon whether the policies are enforced with results to show actual effectiveness or whether they are 'just for show'. When these policies are backed by a consistent "meaning-business" tone from the top, company-wide education and awareness, and effective enforcement, they can go a long way towards mitigating the risk of fraud by enforcing a culture of an impregnable internal sense of discipline and commitment. Where cases of fraud are dealt with uncompromisingly, the correct signal is also being sent at all levels not even to contemplate indulging in such activity.

However, even companies that have robust internal controls in place can be susceptible to fraud. For example, when internal controls are compromised — such as through management override or collusion between employees and third parties — it is possible for perpetrators to hide their fraudulent activities and make their detection very difficult.

Potential for insider collusion in the perpetration of fraud must be technically identified and dealt with immediately. All loose ends must be identified and brought under control by proper processes and strict procedures.

While there is broad agreement that fraud risk management is an important activity in a well-run company, there is always room for improvement in applying this in practical terms. Opportunities for fraud arise in the evolution of companies' lines of business or from adoption of new and sophisticated tools to record transactions. The converse is also true in areas where changes are slow, for example, fraud associated with manipulation of funds in dormant customer or internal accounts.

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Effective fraud mitigation requires companies to have strong fraud risk management practices in place. More importantly, Audit Committees must ensure that these systems go beyond simple formalities and are actually backed up by the substance of robust procedures and a willingness to plug loopholes before they are employed to the detriment of the company.

Also, a history of no-fraud in a company should not be interpreted to mean that it is not exposed to the risk of fraud. The Audit Committee should remain on the lookout for potential loopholes which may be fraudulently exploited due to complacency.

The following factors are essential to the management of the risk of fraud within the company:

(i) Capabilities of Audit Committee members

Audit Committee members equipped with the right skills stand as a vanguard to protect their companies from falling victim to fraud. They are often required to deal with complex situations, especially when it comes to potential cases of fraud. If they can develop a comprehensive understanding of the entity’s business and possess the necessary analytical skills to deal with issues, they will constitute a valuable asset in the fight against fraud.

Without the apt skills, it will be difficult for them to detect fraud, given the complex environment in which financial structures work. For example, an important skill which should be mastered by Audit Committee members is to understand the importance of balance sheet reconciliation to identify possible irregularities. Audit Committee members are responsible for scrutinising their company’s financial statements and addressing possible areas of fraud. They need to employ their skills to take a closer look at their company’s systems and processes to determine how robust they are and in which areas improvements can be made.

Effective Audit Committees also require Independent Directors to be truly independent and objective, even if this runs contrary to what other Committee members may want.

If Audit Committee members enjoy their independence and objectivity, they are more likely to be effective in identifying and counteracting fraud — especially if the fraud is the result of Management override. The question is: are Audit Committee members willing to stand up and challenge management, where the need arises?

(ii) Competency of Internal Auditors

It is necessary to have Internal Auditors capable of monitoring the system and identifying possible cases of fraud.

For Audit Committees, an important question to consider is whether the company has Internal Audit with a blend of competencies and sufficient knowledge of fraud to identify red flags indicating fraud may have been committed. If that is not so, they should do all they can to equip the Internal Audit team with the means to deliver with competence and high integrity on their assignment.



An Independent director is a director who is non-executive and who can exercise independent judgment in the carrying-out of his/her duties, has an outstanding independence of mind, free from any direct or indirect interests in the discharge of the duties as a member of the Audit Committee.

(iii) Strategies for risk mitigation

It may never be possible to eliminate fraud completely. There will always be people — whether driven by greed, financial difficulty or other motivations — finding new ways to beat the system and avoid detection. If someone wants to beat the system, the question is how can we detect it as soon as possible?

The best that Audit Committees, Management and Regulators can do is to ensure that their fraud risk management frameworks are robust and constantly evolving. The following are some insights which may be employed in implementing a sound fraud risk management framework:

- **Learn from the past.** One pitfall facing some Audit Committees is that they tend to be reactive rather than proactive: they take the necessary action when an incident of fraud arises, but they do not always learn the lesson that will help them prevent an identical fraud from recurring.
- **Adopt a holistic approach.** Fraud can potentially take place in any part of a business, so for maximum effectiveness, fraud prevention must be tackled holistically. Unfortunately, this is not always done, as some companies implement fraud prevention measures on a piecemeal basis

without much thought given to how different aspects of the business relate to each other. All strategies for fraud prevention must be combined into a unified and effective one. If there is unusual smoke in some area, it is important to find out the fire which is the cause behind it and deal with the situation comprehensively.

- **Ensure autonomy in reporting.** When it comes to fraud detection and compliance, the individuals reporting on these issues should have as much autonomous independence as possible. This is important to prevent them from being pressured into 'watering down' or holding back their concerns, thus undermining the full understanding of the systemic nature of the fraud risk from the perspective of the business as a whole.
- **Back policies with enforcement.** Many companies have a lot of top-down emphasis on fraud prevention and compliance with internal controls. However, this is often not backed up by sufficient enforcement and follow through. For fraud prevention measures and internal controls to be effective, there must be strong support from top management to ensure that these policies are taken seriously.



The Audit Committee's response to fraud risk



Importantly, the Audit Committee must be informed and actively engaged in overseeing the process while avoiding taking on the role or responsibilities of management.

To this end, Audit Committees should consider the following activities:

- Assess, monitor and influence the tone at the top and reinforce a zero-tolerance policy for fraud
- Evaluate Management's process and procedures for:
 - the identification and mitigation of fraud risk, including the measures implemented by Management designed to help detect and prevent fraud;
 - spotting and acting to stop cases where top cadres of the company adopt a self-interested condescending/constructive attitude towards higher-level decisions involving potential fraudulent activities;
 - verifying and reporting on reasons for unusual departures (up or down) from previous volumes of business flows in specific areas of the company's activities;
 - ensuring that past dues/non-performing debts owing to or owed by the company are not deliberately understated/overstated to window-dress accounts;
 - screening potential employees, including whether proper background checks are performed and duly acted upon so as not to expose the company;
 - significant estimates used in the financial reporting process;
 - the processing of manual journal entries and reporting cycle of the closing process;
 - follow on process for comments received from stakeholders or anonymous letters; and
 - establishing a whistle-blower process.
- Provide oversight to management's internal controls and contemplate the potential for management override of, or inappropriate influence over, those controls
- Compare the reasonableness of financial results with prior or projected results and consider quarterly analysis of key provisions
- Provide other fresh insight into and guidance on implementing or strengthening fraud prevention and detection measures, including by seeking any independent views from outside sources when it was felt that sourcing such information could throw better light on suspected cases of fraud involving the company.

Conclusion

As is well known, the nature of fraud keeps evolving. The scale of its impact on individual companies can be significant. Substantial powers are sometimes given to some individuals/committees within companies which are sometimes unaccountably employed by specific members of those committees to bind the companies into unreasonable and untenable situations. Their decisions can sometimes prove to be catastrophic to the concerned companies, without constituting what may be termed as a 'fraud' in as much as they appear to be within the powers conferred upon them when doing the transactions. Companies may protect themselves against fraud/abuse precisely by keeping under the hardest scrutiny powers which have been unduly appropriated by one or a few to override the collective systems and controls, whether through explicitly given powers or by undertaking fraudulent practices.

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Organisations have to design anti-fraud mechanisms that look both ways, inside and outside. And they need to be aware of the possibility that a lone, fraudster from the inside may be working with a sizeable group of people on the outside. There are many permutations organisations must guard against.”

***Global profiles of the fraudster
(KPMG, 2016)***





Appendices

Appendix 1

Glossary of fraud and related terminology

Fraud is any intentional act or omission designed to deceive others, resulting in the victim suffering a loss or the perpetrator achieving a gain. Actions taken on behalf of the organisation for its benefit but to deceive and cause another party to suffer a loss are also considered as Fraud. Below is a non-exhaustive list of fraud to be used as guidance and must be read in conjunction with the applicable legislations of Law of Mauritius such as, but not limited to, “The Prevention of Corruption Act, 2002”, “The Financial Intelligence and Anti-money Laundering Act, 2002”, etc.

Fraud				
Asset	Expense	Relationship	Accounting and Tax	Others
Asset Misappropriation Stealing cash or asset and concealing the theft	Disbursement Fraud A person causes the organisation to issue a payment for fictitious goods/services, inflated invoices or invoices for personal purchases	Conflict of Interest Undisclosed personal economic interest in a transaction that adversely affects the organisation, or the shareholders’ interests	Financial Statement Fraud Manipulating records which affect the financial statement to one’s advantage	Inefficiency/ Mismanagement Managing incompetently or dishonestly
Lapping Diverting payments from a customer for personal use and using payments from other customers to cover missing payments	Expense Reimbursement Fraud An employee is paid for fictitious or inflated expenses (e.g. reimbursement for personal travel)	Diversion An act to divert a potentially profitable transaction to an executive or any other employee	Information Misrepresentation Providing false information usually to those outside the organisation	Blackmail To extract money from a person by the use of threats
Data Misappropriation Theft or wilful destruction or removal of company records	Payroll Fraud Creating a fictitious employee for invalid payment/ manipulating personnel records for personal gain such as overpayment of overtime	Favouritism/ Nepotism The favouring of one person or group over others with equal claims and potential	Tax Evasion Intentionally avoiding paying the actual tax liability (including by transfer pricing)	Corruption Misuse of entrusted power for private gain
Insider Dealing Unauthorised use or disclosure of confidential information for personal gain		Related Party Activity One party receives some benefit not obtainable in an arm’s length transaction		Bribery Offering, giving, receiving or soliciting of anything of value to influence an outcome

Appendix 2

Fraud risk factors

As Audit Committees work to understand management's risk assessment and risk management policies, they should consider any cultural or organisational aspects of the entity that may be a potential risk factor of fraud. Those who have been long enough in the organisation are conscious of weak control areas and it is important to ensure that such knowledge is not employed to the detriment of the organisation or to that of the persons it deals with.

Possible risk factors include the following:

Risk factors relating to management characteristics:

- Abuse of authority by the CEO or Chairperson of the Audit Committee
- The Top Manager being the decisive person in the allocation of contracts on behalf of the company and, hence, in deciding the pay-out for them for deriving personal advantage to the detriment of the company
- A significant portion of management's compensation is represented by bonuses, stock options, or other incentives, the value of which is contingent upon the entity achieving aggressive targets for operating results or financial position
- An excessive interest in maintaining or increasing the entity's stock price or earnings trend through the use of unusually aggressive accounting practices
- Non-financial management's excessive participation in, or preoccupation with, the selection of accounting principles for the determination of significant estimates
- A practice by management of committing to analysts, creditors, and other third parties to achieve what appear to be aggressive or unrealistic forecasts
- High turnover of accounting personnel, senior management, counsel, or board members
- Tolerance by management of absence of dual or full controls in sensitive areas of work, such as handling of cash
- Known history of law violations or claims against the entity or its senior management alleging fraud or violations of laws, including tax structures
- Strained relationship between management and the current or the previous external auditors
- Management recommendation for changes in auditors
- Infighting among top management
- Management and certain key stakeholders' insistence to be personally present at all times during all Audit Committee meetings with Internal and/or External Auditors
- Hesitancy, evasiveness and/or lack of specifics from management or auditors regarding questions about the financial statements
- Instances of differences in views between Management and External Auditors
- Frequent and unusual dealing in the shares held by management, especially when shares are sold
- Inappropriate behaviour with regard to company expenses
- Undisclosed related party transactions.

Risk factors relating to internal controls:

- A weak control environment
- Identified and reported deficiencies in internal controls which remain uncorrected without appropriate justification or a reluctance to make changes in systems and procedures recommended by internal and/or external auditors
- A failure by management to display and communicate an appropriate attitude regarding internal control and the financial reporting process, e.g. instances of management segregation of duties
- Internal Audit operating under scope restrictions, such as the head not having a direct line of communication to the Audit Committee
- Reference in and monitoring of trends in internal and external audit reports
- Lack or ineffective segregation of duties
- Lack of accountability
- Ability to bypass controls.

Risk factors relating to human resources:

- Low morale and motivation among employees
- Unwillingness of specific employees to be rotated to other sections
- High turnover in the accounting department or among key officer positions
- Understaffed Accounting and Internal Audit departments
- An employee living an ostensibly lavish lifestyle or a lifestyle judged to be well beyond his or her means
- Employees with known gambling habits and/or substance abuse
- Employees with significant days' leave due to them not taken
- Failure to enforce the company's code of conduct.

Risk factors relating to industry conditions:

- New accounting, statutory, or regulatory requirements that could impair the financial stability or profitability of the entity
- High degree of competition or market saturation, accompanied by declining margins
- Declining industry with increasing business failures
- Rapid changes in the industry, such as significant declines in customer demand, high vulnerability to rapidly changing technology, or rapid product obsolescence
- A high level of complaints from customers, suppliers, or regulatory authorities
- Excessive pressure to meet financial sales targets and analysts' expectations.

Risk factors relating to operating characteristics and financial stability:

- Incomplete or incorrect accounting records, e.g. large suspense accounts or reconciliations with many long outstanding items or significant number of journal entries close to year-end
- Excessive use of Special Purpose Vehicles or acquisition accounting and the excessive use of business combinations
- Overly optimistic news releases or shareholder communications, with the CEO acting as champion to convince investors of future potential growth
- Financial results that seem "too good to be true" or significantly better than peers/competitors – without substantive differences in operations

- Widely dispersed business locations with decentralised management and a poor internal reporting system
- Significant pressure to obtain additional capital necessary to stay competitive considering the financial position of the entity – including need for funds to finance major research and development or capital expenditures
- Assets, liabilities, revenues or expenses based on significant estimates that involve unusually subjective judgments or uncertainties, or that are subject to potential significant change in the near term in a manner that may have a financially disruptive effect on the entity, such as ultimate collectability of receivables, timing of revenue recognition, realisability of financial instruments based on the highly subjective valuation of collateral of difficult-to-assess repayment sources or significant deferral of costs
- Significant related-party transactions not in the ordinary course of business or with related entities not audited or audited by another firm
- Significant, unusual or highly complex transactions close to year-end that pose difficult “substance over form” questions or large last-minute potentially window-dressing transactions having significant impact on results in half yearly or annual reports
- Significant bank accounts or subsidiary or branch operations in tax-haven jurisdictions for which there appears to be no clear business justification
- Overly complex organisational structure involving numerous or unusual legal entities, managerial lines of authority, or contractual and business arrangements without any apparent business or practical purpose and not well understood
- Unusually high dependence on debt or marginal ability to meet debt repayment requirements. Debt covenants that are difficult to maintain
- Unrealistically aggressive sales or profitability incentive programmes
- Threat of imminent bankruptcy or foreclosure
- Adverse consequences of significant pending transactions, such as a business combination or contract award, if poor financial results are reported
- Poor or deteriorating financial position when management/shareholders of the borrowing company agree to personally guarantee significant debts of the entity when pressed by lenders to regularize/settle the debts
- Inability to generate cash flows from operations while reporting earnings and earnings growth
- Apparent inconsistencies between the facts underlying the financial statements and the Chairman’s statement (e.g. the CEO report presents a “rosier” picture than the financial statements warrant)
- A consistently close or exact match between reported results and planned results, for example, results that are always exactly on budget or target, or managers who always achieve 100 percent of bonus opportunities
- A pattern of delivering most of the month’s or quarter’s sales in the last week or the last day
- Unusual balance sheet changes or changes in trends or important financial statement relationships, for example, receivables growing faster than revenues, or accounts payable that keep getting delayed
- Unusual accounting policies, particularly for revenue recognition and cost deferrals, for example recognising revenues before products have been delivered (bill and hold) or deferring items that normally are expensed as incurred
- Numerous and/or recurring unrecorded or ‘waived’ adjustments raised in connection with the annual audit
- Use of provisions/reserves to smooth out earnings which are subsequently reversed in a later period or frequent and significant changes in estimates for no apparent reason, increasing or decreasing reported earnings
- Significant differences between accounting and tax profits.



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