

2021

Consultation Paper

Proposal to revise ISA (Ireland) 240
The Auditor's Responsibilities
Relating to Fraud in an Audit of
Financial Statements

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Mission

To contribute to Ireland having a strong regulatory environment in which to do business by supervising and promoting high quality financial reporting, auditing and effective regulation of the accounting profession in the public interest.

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1. Summary

The purpose of this consultation paper is to obtain the views of stakeholders with regard to IAASA's proposal to issue a revised version of ISA (Ireland) 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements. This is to reflect recent changes to the corresponding standard in the UK and in line with IAASA policy.

The proposed effective date of the revised standard in Ireland is for the audits of financial statements with accounting periods beginning on or after 15 December 2021, with early adoption permitted.

The main proposed changes to the standard are summarised in section 4 below and the proposed revised standard can be found [here](#).

2. Background

The ISAs (Ireland) are based on the ISAs (UK) which, in turn, are based on the corresponding standards issued by the International Auditing and Assurance Standards Board ('IAASB')¹.

IAASA's policy is to make minimal amendments to the UK standards. Amendments are considered where there is a conflict with Irish or EU law or where there are distinct differences between the Irish and UK markets which impact on the applicability of a standard in Ireland.

The Financial Reporting Council ('FRC') issued a consultation on proposals to revise ISA (UK) 240 in November 2020, and issued the revised UK standard and a feedback statement on its consultation in May 2021 (details of which can be found [here](#)).

The FRC's revisions to the standard are designed to make the auditor's obligations clearer, enhance the risk assessment they carry out, and set clearer requirements for what the auditor then does.

In line with IAASA's policy to adopt the UK standards, IAASA intends to adopt the revised standard with minimal amendments (section 3 refers) and does not propose to add any new Irish requirements to the changes made by the FRC.

3. Consideration of the Irish market and international developments

All of the changes made by the FRC have been reviewed in detail and, where considered appropriate, amendments have been made to tailor the equivalent provisions in the proposed ISA (Ireland) 240, as summarised in the following bullet points.

- The ISAs (UK) require that all audit reports explain to what extent the audit was considered capable of detecting irregularities, including fraud. As detailed in the [feedback paper](#) on the Ethical Standard for Auditors (Ireland), International Standards on Auditing (Ireland) and Glossary of Terms (Revised November 2020), IAASA has applied this reporting requirement to PIEs and listed entities only. Paragraph 39-1 of the exposure draft has been amended to reflect this requirement.

¹ IAASB is a committee of the International Federation of Accountants (IFAC).

- References to the EU Audit Regulation have been retained in paragraphs 41R-1 and 43R-1 to indicate that these requirements are derived from EU legislation.

Part of the rationale for the FRC's changes was to implement a recommendation in the Report of the Independent Review into the Quality and Effectiveness of Audit, undertaken by Sir Donald Brydon in the UK. He recommended the amendment of ISA (UK) 240 "to make clear that it is the obligation of an auditor to endeavour to detect material fraud in all reasonable ways". IAASA considers that it is appropriate to adopt these changes in Ireland as they address issues and concerns that are not unique to the UK market. We will continue to monitor developments in the UK, including any further changes to the UK auditing framework resulting from the recent Department for Business, Energy and Industrial Strategy consultation, Restoring Trust in Audit and Corporate Governance, to assess whether it is appropriate to adopt them in Ireland.

In September 2020, the IAASB issued a [discussion paper](#) on Fraud and Going Concern in an Audit of Financial Statements. IAASA responded to this consultation and also participated in the development of the comment letter submitted by the Committee of European Auditing Oversight Bodies ('CEAOB'). It is likely that it will take several years before there are any changes to the international auditing standards resulting from the consultation. We will monitor developments in this area to ensure that the Irish auditing framework continues to reflect international best practice.

4. Overview of Proposed Revisions

Text in the exposure draft that is highlighted in grey supplements the text of the underlying IAASB international standard. With the exception of paragraphs 41R-1 and 43R-1, which are also in the extant standard, this can be used to identify the proposed revisions.

The substantive proposed amendments to ISA (Ireland) 240 are set out below.

Conforming amendments

The exposure draft reflects the IAASB's conforming amendments introduced by [ISA \(Ireland\) 315 \(revised October 2020\)](#), Identifying and Assessing the Risks of Material Misstatement, as set out in the 'Conforming and Consequential Amendments to Other International Standards' section of that standard.

Introduction

Paragraph 3 states that judgements about whether an identified misstatement due to fraud or suspected fraud is material takes into account the qualitative as well as quantitative characteristics of the fraud.

New paragraph 7-1 clarifies that while the risk of not detecting a material misstatement resulting from fraud may be higher than the risk of not detecting one resulting from error, that does not diminish the auditor's responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement due to fraud.

Objectives

The introduction to paragraph 10(a) states that the objectives of the auditor include obtaining reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud.

Professional scepticism

Paragraph 12-1 has been inserted, which requires that the auditor shall undertake risk assessment procedures and design and perform further audit procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. This is consistent with recent changes to other ISAs (Ireland), including ISA (Ireland) 540 (Revised December 2018), Auditing Accounting Estimates and Related Disclosures, and ISA (Ireland) 315 (Revised October 2020).

Paragraph 13 of the extant standard states that, unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine. If conditions identified during the audit cause the auditor to believe that a record or document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further. New paragraph 13-1 emphasises the importance of remaining alert for conditions that indicate a record or document may not be authentic. New paragraph A9-1 in the application material provides examples of conditions that may indicate a document is not authentic or has been tampered with.

Paragraph 14 has been revised to require that, in addition to investigating inconsistent responses to inquiries of management, those charged with governance or others in the entity, the auditor shall also investigate responses that appear implausible.

Related parties

New paragraph 14-1 requires that in obtaining audit evidence regarding the risks of material misstatement due to fraud the auditor shall comply also with the relevant requirements in ISA (Ireland) 550, *Related Parties*.

Discussion among the engagement team

Four new paragraphs 15-1 to 15-4 have been inserted in this section of ISA (Ireland) 240. Corresponding amendments have been made to the related application material (paragraphs A11 and A11-1).

Paragraphs 15-1 to 15-2 specify particular matters to be included in the discussion among the engagement team, including how management could perpetrate and conceal fraudulent financial reporting; how assets of the entity could be misappropriated; and the susceptibility of a significant component in a group audit to material misstatement of the financial information due to fraud. Paragraph 15-3 states that, if allegations of fraud come to the auditor's attention, the discussion shall include how to investigate and respond to those allegations. Further examples of matters that may be discussed have been added to paragraph A11.

New paragraph 15-4 requires that the engagement partner shall determine whether further discussion(s) among members of the engagement team be held at later stages in the audit to consider fraud risk factors that have been identified during the course of the audit and the implications for the audit. Paragraph A11-1 has been inserted in the application material with examples of circumstances where it may be beneficial to have further discussion.

Risk assessment procedures and related activities

A new line has been added to paragraph 16 to clarify that the risk assessment procedures and related activities required by ISA (Ireland) 315 (Revised October 2020) shall include obtaining an understanding of the fraud risk factors relevant to the entity that affect the susceptibility of assertions to material misstatement due to fraud.

New paragraph 18-1 requires that the auditor shall make inquiries of management, or others within the entity as appropriate, who deal with allegations, if any, of fraud raised by employees or other parties.

New paragraph 21-1 requires that, when obtaining an understanding and making inquiries of those charged with governance in accordance with paragraphs 20 and 21, the auditor shall discuss with those charged with governance the risks of material fraud in the entity, including those that are specific to the entity's business sector. Related application material has been inserted (paragraph A20-1).

New paragraph 21-2 requires that, if the responses to inquiries of those charged with governance, or others within the entity, are inconsistent with the responses to the inquiries of management, the auditor shall determine the implications for the audit in accordance with ISA (Ireland) 500 (Updated December 2018), Audit Evidence.

New paragraph 24-1 requires that the auditor shall determine whether the engagement team requires specialised skills or knowledge to perform particular procedures. New paragraph 33-1 states that if the auditor identifies a misstatement due to fraud or suspected fraud, the auditor shall determine whether specialised skills or knowledge are needed to investigate further for the purposes of the audit. Paragraphs A27-1 and A48-1 have been inserted in the application material, containing examples of matters that may affect the auditor's determination.

Responses to the assessed risks of material misstatement due to fraud

New paragraph 32-1 requires that, in obtaining and evaluating audit evidence regarding possible management bias in making accounting estimates, the auditor shall comply with the relevant requirements in ISA (Ireland) 540 (Revised December 2018), Auditing Accounting Estimates and Related Disclosures.

New paragraph 36-1 provides that, in performing the stand-back and overall evaluation of the sufficiency and appropriateness of audit evidence obtained, the auditor shall evaluate whether:

- The assessments of the risks of material misstatement at the assertion level due to fraud remain appropriate; and
- Sufficient appropriate audit evidence has been obtained regarding the assessed risks of material misstatement due to fraud,

and shall conclude whether, the financial statements are materially misstated as a result of fraud.

The auditor's report

Paragraph 39-1 has been inserted to emphasise that, as required by paragraph 29-1 of ISA (Ireland) 700 (Revised November 2020), Forming an Opinion and Reporting on Financial Statements, the auditor's report for audits of public interest entities and listed entities shall explain to what extent the audit was considered capable of detecting irregularities, including fraud. This explanation shall be specific to the circumstances of the audited entity and take account of how the auditor planned and performed procedures to address the identification and assessment of the risks of material misstatement.

Communications to management and with those charged with governance

Paragraph 42 now requires that, in communicating matters related to fraud, the auditor shall consider the matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and the auditor's assessment of the risks of material misstatement due to fraud.

Documentation

New paragraph 45-1 states that, as required by ISA (Ireland) 230 (Updated December 2018), Audit Documentation, if the auditor identified information that is inconsistent with the auditor's final conclusion regarding a significant matter, the auditor shall document how the auditor addressed the inconsistency.

Proposed effective date

It is proposed that the revised standard shall be effective for audits of financial statements for periods commencing on or after 15 December 2021, with early adoption permitted. This is the same effective date as for ISA (Ireland) 315 (Revised October 2020) and the UK versions of these standards.

In our view, this will facilitate firms in implementing the changes required to their procedures as a single update rather than two sets of changes within a relatively short timeframe. It will also simplify the updating of audit processes in firms that operate in both jurisdictions if the effective date of ISA (Ireland) 240 is consistent with the UK date.

5. Matters on which IAASA is consulting

In light of the above, a number of matters are set out below on which IAASA is seeking views from stakeholders and interested parties **by 5pm on Friday 3 September 2021**.

No.	Matter on which views are sought
1.	<p>In the context of IAASA's policy to make minimal amendments to the UK standards, are there any amendments proposed to ISA (Ireland) 240 that, in your opinion conflict with Irish or EU law?</p> <p>If so, please:</p> <ol style="list-style-type: none">i. identify the relevant legal provision(s);ii. give reasons for your view; andiii. explain what action(s), if any, you believe should be taken to update the standard in Ireland in respect of the matter(s) concerned.

2. In the context of IAASA's policy to make minimal amendments to the UK standards, are there any areas not identified in this consultation paper where there are distinct differences between the Irish and UK markets which, in your opinion, would impact on the applicability of the proposed amendments to the standard in Ireland?

If so, please:

- i. give your reasons;
- ii. identify the market sector(s), audited entities etc. in Ireland impacted by the proposed amendment; and
- iii. explain what action, if any, you believe should be taken to update the standard in Ireland in respect of the matter(s) concerned.

3. Is the proposed effective date, i.e. for financial periods beginning on or after 15 December 2021, appropriate? If not, please give reasons and indicate the effective date that you would consider appropriate.

6. Making your submission

IAASA invites comments on the proposed amendments to ISA (Ireland) 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements.

In particular, comments are sought on the specific matters set out in section 5 above.

Stakeholders and interested parties are invited to provide responses to the above questions by e-mail only to **submissions@iaasa.ie** no later than **5pm on Friday 3 September 2021**.

Comments are most helpful if they:

- a. respond directly to the specific question posed;
- b. provide a clear rationale for the position adopted by the respondent;
- c. provide supporting evidence underpinning the views expressed/rationale proposed; and
- d. describe in detail any alternative option(s) you wish IAASA to consider.

All responses from identifiable individuals and organisations received by the deadline will be considered by IAASA. Depending on the nature and scale of responses, IAASA may publish a feedback statement summarising the content of the responses. Respondents should note that, in the interest of transparency, their responses may be published in full or in part (and may be attributed to the respondent) by IAASA in that feedback statement.



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