Mr. Kevin Prendergast
Irish Auditing & Accounting Supervisory Authority
Willow House, Millennium Park
Naas
Co Kildare

03 September 2021

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

Dear Mr. Prendergast,

Deloitte Ireland LLP ("Deloitte", "we") is pleased to provide comments and observations on the Irish Auditing and Accounting Supervisory Authority's ("IAASA") consultation paper as titled above.

We note in the consultation paper that IAASA's policy is to make minimal amendments to the UK standards and that amendments are only 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.

We welcome and support the development of standards that support consistent and high quality of work by auditors and IAASAs commitment in this respect. As the UK are now no longer part of the EU, by following the UK standards and approach, there is an increasing risk of divergence from EU law.

We believe that there are certain aspects of these new revisions that reflect a clear departure from EU law and the international auditing framework issued by the IAASB and go further than the international standards applied by other European countries. We have indicated these specific areas in our detailed response below, and we have concerns that the continued approval and adoption of the FRC standards in Ireland, particularly in a post Brexit environment, will cause significant issues and result in unworkable differences arising between Ireland and the rest of the EU.

We have set out below our responses to the specific matters on which views are sought.

Kind regards,

Deloitte

1. **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? If so, please:**
    i. **identify the relevant legal provision(s);**
    ii. **give reasons for your view; and**
    iii. **explain what action(s), if any, you believe should be taken to update the standard in Ireland in respect of the matter(s) concerned.**

We have noted that a new paragraph has been added to ISA (Ireland) 540, paragraph 39-1 to link to the requirement in ISA (Ireland) 700, paragraph 29-1, related to reporting on the an audit is capable of detecting irregularities, including fraud. Arising from Article 10 of the EU Audit Regulation which applied solely to the audit reports of EU Public Interest Entities ("PIEs"), we note that the proposed scope for reporting on this matter has now been extended in ISAs (Ireland) to apply to "public interest entities and listed entities". We believe the fact that the scope has been extended beyond the requirements of EU law to all listed entities, is not appropriate.

Given the intention to expand this requirement to all public interest entities and listed entities, we believe this may lead to the use of boilerplate text in the report (particularly for smaller entities) that may not add value to the users of audit reports. As the term "irregularity" is broadly based, it would be very difficult for the auditor to ensure that such an explanation reports matters of significance clearly and concisely, whilst also being mindful of the legal restrictions on disclosure of matters of non-compliance where relevant.

We do understand the intentions behind this requirement, to ultimately address the expectation gap that still remains. Where fraud is subsequently found, there may be the assumption that the auditor could have done more to detect it, which is not always the case. We do not believe that explaining the nature of this gap is the ultimate solution; the gap must be narrowed. As expressed in our opening statement, we believe that continued adoption of UK interpretations and FRC standards is not appropriate in Ireland. We would support alignment with the rest of Europe on this specific requirement and that the scope should remain as stated in the EU Audit Regulation as applicable to EU PIEs only.

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.**

As the UK are now no longer part of the EU, there is a fundamental difference between the Irish and UK markets. Any continued alignment between the UK and Ireland should be carefully considered. In Ireland, we operate under the same regime of audit supervision as

many of our EU counterparts; therefore, we strongly support alignment to the international standards applied by other European countries.

It is clear that many of the changes being made in the UK are in direct response to the significant scrutiny that has developed on the audit profession in the UK market. The reasons for adopting the changes in the Irish market are unclear and are not explained fully in the consultation paper with the exception of alignment with the UK.

We believe, due to tax legislation and other regulation, the Irish market is different to that in the UK. One example of the Irish listed entity market which is relatively unique is the much higher proportion of special purpose vehicles ("SPVs") with listed debt in Ireland compared to the UK. The additional reporting in respect of fraud and irregularity, as applied to all public interest entities and listed entities, would extend to a large number of SPV entities. Given the structured, limited recourse nature of such vehicles, as well as the management structure (the majority being administered by third parties), it is difficult to understand what positive impact additional reporting would achieve. We believe there is a high chance that boilerplate non-specific descriptions would be used that are unlikely add value to the users of the audit report.

Related to this, we believe clarification from IAASA is needed on the definition of the term "listed" in the IAASA glossary – the updated wording in the revised glossary would appear to give weight to the argument that SPVs, whose debt is not freely transferable, are not considered listed. We would very much welcome clarification on this.

Old Glossary – "Listed entity—An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body. This includes any company in which the public can trade shares, stock or debt on the open market, such as those listed on the Irish/London Stock Exchanges (including those admitted to trading on the Alternative Investment Market), and ISDX Markets. It does not include entities whose quoted or listed shares, stock or debt are in substance not freely transferable or cannot be traded freely by the public or the entity."

New Glossary ; "Listed entity—An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body. This includes any entity in which the public can trade shares, stock or debt on the open market, such as those listed on the Irish/London Stock Exchanges (including those admitted to trading on the Alternative Investment Market), and ISDX Markets. It does not include entities whose quoted or listed shares, stock or debt are in substance not freely transferable or cannot be traded freely by the public or the entity9 (e.g. because the listing is a structural requirement for that entity and its shares, stock or debt are not traded, or because the consent of another party is required to trade in the shares, stock or debt)".

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**

No issues noted with the effective date.