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Mr. Kevin Prendergast
Chief Executive Officer
Irish Auditing and Accounting Supervisory Authority
Willow House
Millennium Park
Naas, Co Kildare

24 August 2021

Ref: MT/SO/FF

Dear Mr Prendergast

Proposal to issue a revised version of ISA (Ireland) 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements.

We welcome the opportunity to comment on the Irish Auditing and Accounting Supervisory Authority's consultation paper on the proposal to issue a revised ISA (Ireland) 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements, to reflect recent changes to the corresponding standard in the UK and in line with IAASA policy.

We support all initiatives to provide clarity to all stakeholders, of the auditor's obligations relating to fraud in an audit of Financial Statements. This is important because the obligations of auditors towards the detection of fraud are not always clearly understood or considered adequate by all stakeholders.

As noted in paragraph 4 of ISA (Ireland) 240: 'The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.' Along with other members of the corporate governance and reporting ecosystem, auditors also play an important role in detecting material fraud. While auditing is an important check against fraud, it is not the only one and so we believe adopting a 'three lines of defence' approach is fundamental i.e.: corporate governance; supervision and enforcement and the auditor. This was also referenced by Mairead McGuinness, the European Commissioner for Financial Stability, Financial Services and the Capital Markets, in her speech at the European Policy Centre on 27 May 2021 where she described these as the "three core pillars to high-quality corporate reporting" and which forms the basis for the Department for Financial Stability and Capital Markets undertaking a thorough assessment of the ecosystem around corporate reporting followed by the launch of a public consultation on this subject later this year.

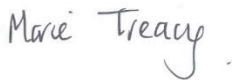
We have provided our responses to the questions posed in the consultation paper in the Appendix to this letter. Set out below are some further high-level observations on the proposed changes:

- We note the Authority's comments in its feedback paper on the Ethical Standard for Auditors and ISAs (Ireland) in November 2020, that there is an expectation gap in the extent to which the audit is capable of detecting irregularities, including fraud, with stakeholders often expecting a higher level of assurance in this area than an audit is designed to provide. We welcome the Authority's decision to try to narrow this gap by applying the requirement that audit reports explain to what extent the audit was considered capable of detecting irregularities, including fraud, to PIEs and listed entities only. We also agree that for the audits

of smaller entities there is a possibility it may result in similar disclosures across entities that add little value or insight and therefore regard this as a more appropriate application given that under EU law this requirement applies only to PIEs.

- We support any revisions to standards that aim to achieve the appropriate exercise of professional scepticism. However, we believe that further guidance either in the standard or separate to the standard, in this area would be beneficial to provide clarity and consistency on how auditors document, evidence and report on the application of appropriate professional scepticism.
- We would encourage periodic reviews of this standard, especially under the current circumstances and because the IAASB will be reviewing its equivalent standard on fraud.

Yours sincerely



Marie Treacy
Audit Compliance Principal
Ernst & Young

Appendix

Q1. 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 are not aware of any amendments to ISA (Ireland) 240 that conflict with Irish or EU law.

Q.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

We have not identified any areas in this consultation paper where there are distinct differences between the Irish and UK markets which impact on the applicability of the proposed amendments to the standard in Ireland.

Q.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.

We believe the proposed effective date is appropriate and agree with IAASAs objective to align with the effective date for ISA (Ireland) 315 (Revised October 2020) and the UK versions of these standards.