

2021

## **Feedback Paper**

ISA (Ireland) 240

(Revised October 2021)

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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## Table of Contents

1. Summary .....	2
2. Responses received .....	2
3. Matters on which IAASA consulted and summary of responses .....	3
4. Additional comments .....	4
5. Conclusion.....	5

## 1. Summary

Following public consultation, IAASA is issuing International Standard on Auditing (Ireland) 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements (ISA (Ireland) 240).

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

The substantive amendments are in the areas noted below. A summary of the changes is available in the [consultation paper](#).

- Objectives
- Professional scepticism
- Related parties
- Discussion among the engagement team
- Risk assessment procedures and related activities
- Responses to the assessed risks of material misstatement due to fraud
- The auditor's report
- Communications to management and with those charged with governance
- Documentation

In addition, the revised standard reflects the IAASB's conforming amendments introduced by [ISA \(Ireland\) 315 \(revised October 2020\)](#).

## 2. Responses received

IAASA received 6 responses, as listed below – two from recognised accountancy bodies and four from audit firms. The full responses are available [here](#) on the IAASA website.

1. Chartered Accountants Ireland (CAI)
2. CPA Ireland (CPA)
3. Deloitte
4. EY
5. KPMG
6. PwC

### 3. Matters on which IAASA consulted and summary of responses

A summary of the responses received to the specific questions asked in the consultation, and IAASA's response, are set out below.

No.	Matters on which IAASA consulted
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"> <li>i. identify the relevant legal provisions;</li> <li>ii. give reasons for your view; and</li> <li>iii. explain what actions, if any, you believe should be taken to update the standards in Ireland in respect of the matters concerned.</li> </ol>
Summary of Responses	While four respondents provided comments in response to this question, no respondent identified a potential conflict with Irish law.
IAASA Response	IAASA's response to the general comments received is set out in section 4.
2.	<p>In the context of IAASA's policy to make minimal amendments to the UK standards, are there any areas not identified in the 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 standards in Ireland?</p> <p>If so, please:</p> <ol style="list-style-type: none"> <li>i. give your reasons;</li> <li>ii. identify the market sectors, audited entities etc. in Ireland impacted by the proposed amendment; and</li> <li>iii. explain what action, if any, you believe should be taken to update the standard in Ireland in respect of the matters concerned.</li> </ol>
Summary of Responses	<p>Two respondents did not identify any market differences. One respondent did not address this question.</p> <p>Three respondents expressed the view that the changes made by the FRC are in anticipation of changes to UK legislation, particularly with regards to the role of directors. They stated that the revised standard goes further than the standards applied in other EU countries and there is a risk of divergence from EU law.</p>
IAASA Response	<p>The revisions to ISA (Ireland) 240 are intended to improve the quality of audits in Ireland. IAASA considers that the revisions clarify the expectations of the auditor in respect of fraud, enhance the requirements of the existing international standard and are consistent with current Irish legislation. As noted in question 1, no respondent identified conflicts with Irish or EU law. IAASA monitors changes to the auditing framework proposed by the FRC to ensure that it continues to be appropriate to adopt the UK standards with minimal changes in Ireland, particularly in the context of Brexit.</p> <p>The FRC has stated that it will consider whether further changes are required to ISA (UK) 240 when the outcome of the UK government's</p>

consultation on *Restoring Trust in Audit and Corporate Governance* is known. IAASA will review any further FRC changes and consider whether they are appropriate to adopt in Ireland at that time.

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.
Summary of Responses	All respondents were in agreement with the effective date.
IAASA Response	The revised standard is effective for audits of financial statements for periods beginning on or after 15 December 2021, with early adoption permitted.

## 4. Additional comments

### 4.1 Language

A number of respondents proposed changes to the language used in the standard, all of which have been considered in detail.

- Two respondents noted that the standard requires auditors to investigate responses that appear implausible. They expressed the view that the term “implausible” is subjective and will lead to inconsistent application. The insertion of this requirement is consistent with the increased focus on the use of professional scepticism in the revised standard. Auditors are expected to apply professional judgement in this area.
- These respondents also questioned the phrase “granting of significant bonuses if hard to reach or unrealistic profit targets are met may create an incentive to commit fraud”. While it is accepted that businesses have a right to determine the appropriate level at which to set targets, this does not negate the fact that challenging targets can create an incentive for fraud.
- There were a number of instances where the insertion of additional language or use of alternative wording was suggested by respondents. The majority of these points were also submitted in response to the FRC’s consultation. IAASA did not identify any instances where it was considered necessary to depart from the FRC’s language. The use of different language in the IAASA standards to that used by the FRC or IAASB is likely to add to confusion for users of the standards as the rationale for such differences may not be clear.

### 4.2 Links to other standards and conforming amendments

One respondent queried the rationale for the inclusion of references to certain other standards. IAASA considers that it is helpful for users of the standards to include references to substantive provisions of other ISAs that relate to fraud.

One respondent raised a number of points with regard to the application material. It is noted that the majority of the points raised relate to conforming amendments resulting from the IAASB’s revisions to ISA 315. These were recently consulted on and IAASA does not intend to further amend. They also queried the deletion of paragraph A11 from the extant standard, which has now been reflected within the body of the standard in paragraph 15-1.

### 4.3 Auditor reporting

Two respondents commented on the requirement that, for public interest entities and listed entities, the auditor's report shall explain to what extent the audit was considered capable of detecting irregularities, including fraud. This is consistent with the revisions to ISA (Ireland) 700, *Forming an Opinion and Reporting on Financial Statements* in November 2020 and is not a new requirement. Similarly, the requirement that the explanation shall be specific to the circumstances of the entity is consistent with the application material set out in paragraphs A39-1 to A39-4 of ISA (Ireland) 700 (Revised November 2020). It is further noted that, in response to comments received to the 2020 consultation, IAASA extended the requirements of the EU Audit Regulation in this area to listed entities only, and not all audit reports as in the UK.

### 4.4 Professional scepticism

Three respondents made submissions regarding professional scepticism, expressing the view that guidance in this area would be beneficial.

The use of professional scepticism has been reinforced throughout the revised standard. These changes include new paragraphs:

- 12-1 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; and
- 13-1 which emphasises the importance of remaining alert for conditions that indicate a record or document may not be authentic.

The ISAs (Ireland) are principles based and it is not practical to attempt to prescribe how professional scepticism is to be applied in all instances. Auditors are expected to apply their professional knowledge and experience in this area. Similarly, as noted above, it is expected that auditors will apply professional judgement and scepticism when assessing whether information or responses to queries appear to be implausible. Auditors may find it helpful to refer to the IAASB's '[Staff Questions and Answers – Professional Skepticism in an Audit of Financial Statements](#)'.

### 4.5 Automated tools and techniques

One respondent suggested that the provision of guidance on the use of automated tools and techniques would be helpful for auditors. In this regard, we note that resources on the use of technology in audit, including non-authoritative guidance, are available on the IAASB website at <https://www.iaasb.org/focus-areas/technology>.

## 5. Conclusion

Following the consultation and having regard to the responses received, IAASA is adopting ISA (Ireland) 240 (Revised October 2021), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*. The final standard can be found [here](#).

A presentation setting out the key features of the revised standard is available [here](#).

The effective date is for audits of financial statements for periods beginning on or after 15 December 2021. Early adoption is permitted.

**Feedback Paper: ISA (Ireland) 240 (Revised October 2021), The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements**





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