

Irish Auditing & Accounting Supervisory Authority
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IAASA Consultation: Proposal to revise ISA (Ireland) 240 The Auditor's responsibilities Relating to Fraud in an Audit of Financial Statements

KPMG welcome the opportunity to comment on the Irish Auditing & Accounting Supervisory Authority's (IAASA) Exposure Draft on the proposed International Standard on Auditing (Ireland) 240 (Revised) *The Auditor's Responsibilities relating to Fraud in an Audit of Financial Statements*.

We are committed to improving audit quality and support the proposal to revise ISA (Ireland) 240 to clarify the auditor's responsibilities in relation to fraud.

We believe that the reassessment of the auditing standard in this area is in the public interest and promotes Ireland as having a strong regulatory environment contributing to high quality audit, as well as corporate reporting, which meet stakeholders' expectations in relation to fraud.

It is important to address the other key areas necessary for change in responding to IAASAs proposal which we have included in our overall considerations.

Our responses to the consultation questions are set out in Appendix 1.

We hope you find our comments useful. Please contact me if you have any questions on this response or require any further information.

Yours faithfully,



Daniel O'Donovan
Principal, Department of Professional Practice

Appendix 1 - Our responses to the exposure draft questions

- 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 have set out below areas where we consider that the amendments proposed by IAASA require further clarification to ensure that in addition to clarifying the role and responsibilities of the auditor, the amendments also illustrate how auditors obtain the sufficient appropriate audit evidence required.

Enhancements to the requirements and application material

Paragraph 14

The proposed wording in paragraph 14 which states that “Where responses to inquiries of management, those charged with governance or others within the entity are inconsistent, or appear implausible, the auditor shall investigate the reasons” requires further clarification. The term “appear implausible” is extremely subjective. We believe to allow auditors to assess inquiry responses and support consistent application of this requirement, it would benefit from specific guidance with the addition of examples in the application material.

Paragraph 29

Paragraph 29(b) has added a requirement to consider key performance indicators. Clarification is required to explain that this reference relates to key performance indicators in (or derived from) the financial statements. Auditors do not have a responsibility to audit the other information and the requirement should not extend auditors' responsibilities to other, non-financial key performance indicators.

Paragraph 32

One of the proposed updates in paragraph 32(a) requires auditors to “Select journal entries and other adjustments made at the end of a reporting period and post-closing entries”. The addition of the “post-closing entries” would benefit from clarification as there is inconsistent interpretation of the phrase “post-closing” in practice. We also note that a consequential amendment to ISA (Ireland) 330 paragraph 20(b) should be made to include the new requirement around post-closing entries.

Paragraph 39-1

Paragraph 39-1 addresses the requirements in relation to the auditor's report relating to fraud and setting out to what extent the audit was considered capable of detecting irregularities including fraud and requires that the explanation shall be specific to the circumstances of the audited entity. While the requirement for the auditor to explain to what extent the audit was considered capable of detecting fraud arises from the EU Audit Regulation 2014, that Regulation does not require an explanation that is specific to the circumstances of the audited entity. We believe that in certain circumstances the requirement for this entity specific explanation may conflict with Irish anti-money laundering legislation.

For example, the application guidance to ISA (Ireland) 700 states that the auditor may explain matters about non-compliance with laws and regulation and fraud that were communicated with the engagement team. In circumstances in which the auditor suspects fraud or irregularities exist and communicates such matters with the engagement team, anti-money laundering legislation will prevent the auditor from providing an explanation in the auditor's report which is specific to the circumstances of the audited entity due to the potential breach to the anti-money laundering requirements regarding tipping-off.

We believe that the requirement is likely to result in largely boiler plate text being included in audit reports of the entities to which this requirement will apply. In circumstances other than those we outline above, the application of the requirements of the standard in relation to risk assessment will be carried out by auditors in a consistent and standardised manner. Therefore, the explanation, can only be uniform across entities.

Paragraph A23

We believe the addition of the words “hard to reach” in paragraph A23 in the context of “granting of significant bonuses if hard to reach or unrealistic profit targets are met may create an incentive to commit fraud;” is inappropriate. Businesses have a legitimate basis to set targets which are “hard to reach”, and shareholders and other stakeholder expect bonus-based compensation to be granted based on strong performance.

Professional Scepticism

We acknowledge that the exercise of professional scepticism cannot be addressed through the revision of auditing standards alone and that there are limitations as to what can be articulated through professional standards. Nonetheless to promote the necessary culture of challenge, we believe it is necessary to enhance practical guidance relating to professional scepticism through the existing application material to support how it should be applied and appropriately documented during the audit.

For example, the addition of Paragraph A7-1 outlines that “Obtaining audit evidence in an unbiased manner may involve obtaining evidence from multiple sources within and outside the entity. However, the auditor is not required to perform an exhaustive search to identify all possible sources of audit evidence”. We welcome this enhancement to the application material and propose that the application may benefit further from illustrative examples of the referenced internal/external sources. This practical perspective would support engagement teams in applying professional scepticism consistently and robustly.

- Q2. *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.***

In the UK, there is a major review of audit and corporate governance (“the review”) underway which is not the case in Ireland. This is a significant difference between the Irish and UK markets.

We believe there will be unintended consequences from adopting changes to ISA (UK) which are being made in contemplation of likely changes to the requirements of the corporate governance and reporting requirements for companies in the UK into ISA (Ireland) without the corresponding changes to the corporate governance and reporting requirements for companies in Ireland also.

For example, the changes to ISA (UK) 240, on which the changes to ISA (Ireland) 240 are based, are underpinned by changes which are also planned in relation to the clarification of UK company responsibility for the prevention of fraud and company reporting on the steps taken by the company to prevent and detect material fraud. The premise of these proposed changes to the UK corporate governance and legal framework is that they will enhance a company’s focus on the

risks relating to fraudulent financial reporting. The changes to ISA (UK) 240 are being brought into place in advance, but in contemplation of these clarified requirements for companies. The bringing into place in Ireland of requirements for auditors without the corresponding changes to the requirements for companies will result in an asymmetrical corporate governance and auditing ecosystem. This in our view, has the potential to further widen the “expectation gap” and may leave stakeholders in Ireland with the expectation that auditors have the primary responsibility for the prevention of fraud and fraudulent financial reporting within companies. We believe, this will be detrimental to Irish stakeholders perception of audit quality as stakeholders in Ireland may believe a financial statement audit is delivering more assurance regarding fraud and non-compliance with laws and regulations than is required by ISAs (Ireland).

We are committed to contributing to the constructive implementation of revisions to ISA (Ireland) 240 that will enhance audit quality and reduce the “expectation gap”. To reduce the “expectation gap” in the area of fraud, the clarity of and alignment of company responsibility for the prevention and detection of fraud is of critical importance. We believe IAASA should carefully consider whether the proposed changes to ISA (Ireland) 240 without the related changes to the requirements for companies will actually increase “the expectation gap” and may negatively impact stakeholder’s perception of audit quality in Ireland.

Q3. *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 agree with the proposed effective date for a revised ISA (Ireland) 240. We think it is appropriate to align the effective date of ISA (Ireland) 240 with that of ISA (Ireland) 315 and we believe it is practicable given the nature of the revisions.