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Dear Mr Billing

**Proposal to revise ISA (UK) 240 (Updated January 2020) The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements**

Grant Thornton UK LLP (Grant Thornton) welcomes the opportunity to comment on the Financial Reporting Council's (FRC) Proposal to revise ISA (UK) 240 (Updated January 2020), The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements (ED-ISA (UK) 240).

We appreciate the steps that the FRC are taking to address the recommendation in Sir Donald Brydon's Report of the Independent Review into the Quality and Effectiveness of Audit ('Brydon review')<sup>1</sup> to "make clear that it is the obligation of an auditor to endeavour to detect material fraud in all reasonable ways" and also more broadly the concerns that the current approach taken by the profession, as required by the current ISA 240 may not always meet the expectations of stakeholders around the likelihood of detecting fraud when performing audits of financial statements.

Overall, we are supportive of enhanced requirements in respect of engagement team discussions and the addition of a requirement for the auditor to determine whether engagement teams require specialised skills or knowledge to perform specific audit procedures or whether it is appropriate to involve a forensic expert. We have made a number of recommendations in our detailed response, regarding the provision of additional guidance to clarify their application including with respect to the practical implementation of those enhanced requirements. In particular, we would like to highlight the guidance necessary to support auditors in making the determination of whether it is appropriate to involve a forensic expert and the type of forensic expert appropriate. It is important that the expectation is not created that a forensic expert should be required on every audit and in every instance a misstatement due to fraud or suspected fraud is identified. Rather, we believe that the focus should also be on ensuring that the engagement team collectively has the appropriate competence and capabilities to perform a high-quality audit and that the requirements of what work and approach should be taken is clarified in ISA 240.

However, we are of the view that issues relating to the prevention and detection of fraud need to be addressed in a holistic manner, and as such our overall concerns lie in the piecemeal nature in which

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<sup>1</sup> Assess, Assure and Inform, Improving Audit Quality and Effectiveness: Report of the Independent Review into the Quality and Effectiveness of Audit, paragraph 14.1.5

this issue is being approached. We are not convinced that the proposed amendments fully address the concerns highlighted in Sir Donald Brydon's report or achieve the goal of clarifying the responsibilities of auditors in relation to the detection of fraud, as detailed below.

#### Responsibilities for the prevention and detection of fraud

Clarifying the auditors' responsibilities and enhancing the required audit procedures for the detection of material fraud in the audit of financial statements only forms part of what is required, and we believe that it is key that an increased emphasis of enhancement and communication of the responsibilities of management or those charged with governance is progressed simultaneously with audit reform. Management or those charged with governance have the primary responsibility for the prevention and detection of fraud, which is consistent with the concept of reasonable assurance that requires a clear framework for management to apply. To fulfil that responsibility a robust system of internal control is required, which includes appropriately designed and effectively operating controls that can be subject to appropriate procedures by the auditor. We further highlight recommendation 14.2.2<sup>2</sup> in the Brydon review, which emphasises the importance of the role of management and those charged with governance through recommending that they report on actions taken in respect of certain matters related to fraud.

Absent clearly defined responsibilities for management and those charged with governance, and for the auditor, there is a heightened risk of the expectations gap increasing, which is counter to the intentions of the revisions proposed in ED-ISA (UK) 240.

#### Expectations gap

The International Audit and Assurance Standards Board (IAASB) has issued a discussion paper<sup>3</sup> that describes the expectations gap as comprising a knowledge gap, a performance gap and an evolution gap. The proposals in ED-ISA (UK) 240 are partially designed at addressing the performance gap and partially designed at addressing the evolution gap. The FRC's proposals only form part of the proposed solution to the issues identified in relation to fraud and it is important that this is appropriately communicated and understood. Absent such communications, the general misconceptions of the role and responsibilities of the auditor in relation to the detection of fraud could be exacerbated which is counter to what the market requires.

We are of the view that adding new requirements or enhancing requirements in the current auditing standards on fraud will not reduce the expectations gap nor improve audit quality or reporting on fraud. In fact, it may actually serve to broaden the expectations gap. We further note that the FRC, in its Impact Assessment, has estimated that the enhanced requirements in relation planning and performing audit procedures under ED-ISA (UK) 240 would take auditors an estimated additional 10 hours per audit. We would question whether publishing such a guideline helps the debate as, in our opinion, any additional work must be focussed to the nature and size of the audited entity. For the majority of audits we would question whether an additional 10 hours will have the desired impact on overall audit quality. We recommend the FRC consults with such listed companies at a minimum to assess whether the resulting further increase in the cost of audit is warranted and will satisfy the needs or expectations of stakeholders.

#### Enhancements to the requirements and application material

In general, we are of the view that the enhancements made to the requirements in ED-ISA (UK) 240 should focus on not only clarifying the role and responsibilities of the auditor but also how auditors obtain sufficient appropriate audit evidence, and therefore reasonable assurance, to address identified fraud risks. Our concern is that a number of the proposals are moving towards a level of assurance that is higher than reasonable assurance about whether the financial statements are free of material misstatements due to fraud [and error] as required by the ISAs (UK). This could be addressed, in part,

<sup>2</sup> Assess, Assure and Inform, Improving Audit Quality and Effectiveness: Report of the Independent Review into the Quality and Effectiveness of Audit, paragraph 14.2.2, 'I recommend therefore that directors should report on the actions they have taken to fulfil their obligations to prevent and detect material fraud against the background of their fraud risk assessment.'

<sup>3</sup> Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit

by greater clarity in the procedures that the auditor is expected to perform to detect fraud in an audit of financial statements, greater clarity on establishing what is considered 'material' in relation to misstatements arising from fraud and by establishing greater clarity on the scope of a number of the proposed requirements. We believe that it is necessary to 'stand back' and consider whether, if additional requirements were in place, these requirements would result in the detection of fraud; and if not, how the profession can address these issues in a different manner. For example, should audit remain largely 'as is' or become a more forensic based? Frauds are not generally being identified in new areas of the financial statements, yet they continue to be perpetrated, which raises the question of whether the root cause of such frauds has really been understood. The profession and the regulator need to fully understand why frauds are occurring before we can implement measures aimed at preventing or detecting future frauds.

#### Current and ongoing Initiatives

In addition to this consultation, the outcome of the inquiry by the BEIS Committee is still anticipated and the Government's proposed final consultation on the UK audit reform is yet to be issued. Further, the IAASB's consultation closes early in 2021 and will likely result in a standard setting project by the IAASB. Not only could the responses to the BEIS inquiry, the UK audit reform and the IAASB's consultation help to inform a better approach to improving and clarifying the auditor's responsibilities and approach to fraud, it could also result in successive changes to ISA (UK) 240 in a short period of time. Whilst we appreciate that auditing is not a static profession, constantly revising the auditing standards may ultimately have a detrimental impact on audit quality. Whilst we understand that in some cases there is a benefit in moving first, be it to address key issues locally or to achieve progress in advance of matters the IAASB are considering, we urge the FRC to consider this risk as it relates to the integrity of UK capital markets and a resilient audit profession.

We set out in the appendix to this letter our detailed responses to the FRC's questions in the Exposure Draft. We would be pleased to discuss those responses with you. If you have any questions, please contact me or Sara Ashton at [REDACTED]

Yours sincerely

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**Fiona Baldwin**  
Head of Audit  
Grant Thornton UK LLP

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## Responses to the Proposed International Standard on Auditing (UK) 240 (Updated January 2020) The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

**Q1. Has ISA (UK) 240 been appropriately revised to give increased clarity as to the auditor's obligations relating to fraud in the audit of financial statements? If you do not consider this to be the case, please set out why and how you believe those obligations should be clarified.**

We are of the view that the amendment to paragraph 3 to include both qualitative and quantitative fraud, which indicates that qualitative considerations extend to a potential misstatement that is less than materiality determined in quantitative terms, needs further clarification of whether this is intended to encompass misstatements arising from fraud, irrespective of the magnitude of the misstatement and of by whom the fraud was perpetrated. We recommend that additional guidance, for example, through the provision of a framework would be helpful in this respect. Clarification would also be helpful on the auditor's responsibilities when a misstatement due to fraud, which was neither quantitative nor qualitative in previous years, becomes so in the period subject to audit.

**Q2. Have appropriate enhancements been made to the requirements for the identification and assessment of risk of material misstatement due to fraud, and the procedures to respond to those risks, to promote a more consistent and robust approach to the auditor's responsibilities in relation to fraud? If you do not consider this to be the case, please set out why and how you believe the requirements should be enhanced.**

We are of the view that appropriate enhancements have been made to a number of the requirements for the identification and assessment of risk of material misstatement due to fraud and the procedures to respond to those risks. In some instances, we are of the view that further clarification of those requirements is necessary. Our views are set out below following the order in which the requirement is incorporated into ED-ISA (UK) 240:

*Paragraph 12-1* – We support the introduction of the paragraph to perform risk assessment procedures and perform further audit procedures in an unbiased manner. It is important to maintain clarity of the auditor's responsibilities in relation to contradictory information.

*Paragraph 13-1* – ED-ISA (UK) 240 includes a requirement for auditors to remain alert for conditions that indicate a record or document may not be authentic along with related application material to support this requirement. This is inconsistent with the previous requirement in paragraph 13, which allows the auditor to accept records and documents as genuine, unless there are reasons to the contrary. The expected audit effort to satisfy the requirement to 'remain alert' and the extent of procedures to check the authenticity of documents, however, remains unclear. The extensive 'checklist' that has been included in the application material to paragraph 13-1 only serves to exacerbate this. If it is expected that the auditor applies the 'checklist' in the application material to each piece of audit evidence, the time and cost of the audit will increase significantly without a corresponding perceived benefit to audit quality. Further it is unclear how the amendments in ED-ISA (UK) 240 interact with the requirements of ISA (UK) 500 (Updated January

2020)<sup>4</sup>, which require the auditor to consider the relevance and reliability of information to be used as audit evidence.

We recommend that application material, is provided to assist auditors in discharging the requirement of 'remaining alert.' We also recommend that either application material or guidance is developed to explain the extent of the audit effort required when it is appropriate to check the authenticity of the documents, without such guidance this could be interpreted as requiring forensic procedures on **all** supporting documentation obtained during an audit. We are concerned that expectations will be created that go beyond the skills of an auditor, particularly in relation to expected inquiries in so far as it relates to third party evidence and when a higher level of complexity exists. Further, considering the current environment, guidance on confirming the authenticity of documents for audits that are performed remotely and where supporting information is sent electronically would be particularly helpful.

*Paragraph 14- 1* – This introduces a requirement for the auditor to comply with the relevant requirements in ISA (UK) 550.<sup>5</sup> The auditor, in asserting performance of an audit in accordance with the ISA, is already subject to compliance with this ISA. We therefore recommend that this requirement is either deleted or amended to indicate the specific requirements in ISA (UK) 550 to which the FRC wishes to draw attention.

*Paragraph 15-4* – We support the introduction of additional requirements regarding the engagement team's discussion about fraud risk factors, specific discussions with component auditors and determination of whether to hold additional discussions at later stages in the audit. However, we recommend that clarity be provided on whether the fraud risks referred to include those identified at the initial engagement team discussion or just include the additional fraud risk factors identified during the performance of audit procedures as indicated in the application material. In addition, we would also recommend that this discussion encompasses consideration of allegations of fraud that may have come to the auditor's attention subsequent to the initial discussion. We further highlight the use of 'engagement team' in this requirement and question whether the intention was to extend the discussion to the component auditor, in line with the revised definition of engagement team in ISA 220 (Revised)<sup>6</sup> or be limited to discussion amongst the group engagement team, subject to paragraph 15-2. If the intention is for the entire engagement team, including component auditors, we are of the view that the requirement created in paragraph A10-1 for all members of the engagement team to participate in the discussion could cause significant practical implications for larger group audits.

*Paragraph 27-1* – requires the auditor to determine whether a forensic expert is needed when a misstatement due to fraud or suspected fraud has been identified on an audit engagement. We agree that it is appropriate to only require the auditor to determine whether it is appropriate to use a forensic expert to investigate the misstatement further. However, we have a number of concerns with how this requirement would be implemented. Firstly, we question whether this requirement should focus on 'material' misstatements, i.e., misstatements that are either quantitatively or qualitatively material, rather than all misstatements. The latter may lead to a documentation exercise that does not add value to the audit or improve the quality of the audit performed. Furthermore, not all identified risks of material misstatements due to fraud would require the use of a forensic expert. For example, in the audit of a non-complex entity, fraud may be perpetrated by means of posting a small number of manual journal entries at the year end to manipulate revenue. Such a fraud does not necessarily require collusion and is simple in nature; and therefore would not require detailed forensic procedures performed by a forensic expert.

We would recommend developing a framework or identifying factors that could be applied by the auditor to assist in the determination of whether a forensic expert is required, and if so, the type of forensic expert, given this term could be very broad ranging. We would also recommend that an

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<sup>4</sup> ISA (UK) 500 (Updated January 2020), Audit Evidence

<sup>5</sup> ISA (UK) 550, Related Parties

<sup>6</sup> ISA 220 (Revised), Quality Management for an Audit of Financial Statements

appropriate definition or description of what a forensic expert encompasses in terms of skills, qualifications and competencies in relation to an audit engagement is developed and whether this definition or description results in the forensic expert being considered an auditor's expert in accordance with ISA (UK) 620 (Revised November 2019)<sup>7</sup> to facilitate the consistent and appropriate application of the ISAs. Further, use of forensic experts in audits would often require audit firms to engage someone from outside the audit practice as audit professionals do not receive training in forensics. For larger firms obtaining appropriate forensics expertise will become more difficult due to issues of associated with operation separation. For smaller firms, difficulties may arise in obtaining appropriate third-party expertise. In the near term, there may not be sufficient availability of appropriately trained and qualified experts in the marketplace to fulfil these needs.

*Paragraph 32-1* requires auditors to comply with the relevant requirements of ISA (UK) 540 (Revised December 2018)<sup>8</sup> regarding possible management bias in making accounting estimates. We support the inclusion of this requirement and question whether examples of other ways in which management bias may manifest itself would be helpful in either the application material or guidance to the standard.

**Q3. Have appropriate enhancements been made to the application material? If you do not consider this to be the case, please set out why and how you believe the application material should be enhanced.**

In addition to the references to application material in our responses to the other questions, we note the following additional views on the enhancements to the application material:

Overall, we are concerned that clarity drafting conventions are not being adhered to, resulting in enhancements to the application material that create a 'hidden requirement' within the application material. If the intention were to create a requirement, we would recommend that this is included in the requirements section of the ISA and not the application material. This will facilitate more consistent application of the audit procedures intended to be performed to identify the risks of material misstatement and performance of the appropriate audit procedures to address those risks. For example, paragraph A7-2 includes the following: "when concluding whether sufficient appropriate audit evidence has been obtained and forming an opinion, the auditor considers all relevant audit evidence, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements." This not only repeats the requirement from ISA (UK) 330 (Revised July 2017)<sup>9</sup> but also creates a requirement in the application material. We suggest this application material is rephrased to: "when concluding whether sufficient appropriate audit evidence has been obtained, ISA (UK) 330 (Revised July 2017) requires the auditor to consider all relevant evidence, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements."

*Paragraph A10-1* – As noted above in our response to question 2 and our additional concern regarding drafting, this application material, creates a requirement. In larger audits, particularly group engagements, it could create practical difficulties for auditors to comply with this requirement. If the intention were to require all members of the engagement team, including component auditors to be present at engagement team discussion, we recommend that this is firstly redrafted as a requirement, and secondly that guidance is provided on the ways in which this can be practically achieved, including how to interpret 'participate in the discussion.'

*Paragraph A27-1* – We appreciate that application material providing examples of the matters the auditor may consider in making the determination of whether specialised skills or knowledge is

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<sup>7</sup> ISA (UK) 620 (Revised November 2019), Using the work of an Auditor's Expert

<sup>8</sup> ISA (UK) 540 (Revised December 2018), Auditing Estimates and Related Disclosures

<sup>9</sup> ISA (UK) 330 (Revised July 2017), The Auditor's Response to Assessed Risks

required for the engagement. To assist the auditor in applying these matters to an audit, we recommend that practical examples of their application to a variety of scenarios is provided by way of an appendix to the standard or through staff developed guidance.

We would also recommend that consideration is given to the inclusion of application material providing guidance on the documentation requirements in paragraphs 45(a) and (b) when a fraud has been alleged or identified and on the documentation requirements in paragraph 46 in relation to communications about fraud made to regulators and others.

**Q4. Do the proposals sufficiently support the appropriate exercise of professional scepticism throughout the risk assessment procedures, the procedures to respond to those risks and the evaluation of audit evidence obtained? If you do not consider this to be the case, please give reasons and describe how you consider the exercise of professional scepticism could be better supported.**

Overall, we support the manner in which professional scepticism is being approached in the proposed amendments, including through requirements and application material incorporated into risk assessment procedures, the procedures to respond to assessed risks and the evaluation of audit evidence obtained. In particular we support the manner in which contradictory information is incorporated into the proposed standard and the establishment of the auditor's responsibilities thereto. However, as noted in our response to question 2, we have concerns with the requirement to remain alert for conditions that indicate a record or document may not be authentic.

We would also recommend that consideration is given to the provision of examples in either an appendix to the standard or in staff prepared guidance, particularly in relation to:

- The implications for the audit if inconsistencies are identified between the responses to inquiries of those charged with governance and others within the entity
- How auditors are able to demonstrate professional scepticism when determining if inconsistencies in other information exist.

**Q5. ISA (UK) 240 establishes a rebuttable presumption that there are risks of fraud in revenue recognition (paragraph 26). Are there other account balances, transactions or disclosures for which such a rebuttable presumption should be established? If you consider there are, please identify them and set out why.**

We are of the view that rather than including additional rebuttable presumptions in the ISAs (UK), the focus should be on providing auditors with the necessary support to consider the risk of material misstatement due to fraud based on the facts and circumstances specific to each financial statement audit. The appropriate response to fraud may not be an increase in sample sizes, which is often the result of classifying a risk as significant, but may be to consider testing of a different nature. Requirements or guidance in this respect could include the identification of account balances, transactions or disclosures that are more susceptible to fraud based on risk factors such as the industry in which the entity operates and how the nature of audit procedures may be varied to address these risk factors. For example, in public sector audits, the risk of material misstatement relating to fraud may also be perpetrated through expenditures as well as income. Through additional requirements or guidance, the auditor could be directed to include documentation of the auditor's consideration of why the risk of fraud is or is not present in expenditures.

In addition, we recommend that consideration is given to including, by way of a thematic review, examples of frauds perpetrated in recent years in different industries and how these frauds were perpetrated. This will assist engagement teams when considering where fraud may be perpetrated and the motivation to perpetrate the fraud. We would further recommend that such a thematic review be completed before substantive changes are made to ISA (UK) 240.

**Q6. ISA (UK) 240 specifies particular audit procedures responsive to risks related to management override of controls (paragraphs 31-33). Are there other audit procedures responsive to those risks, or any other risks of material misstatement due to fraud, that you believe should be required for all audits? If you consider there are, please describe them and set out why.**

We note the following observations in relation to the potential for fraud to be perpetrated through management override of controls:

- The requirements in relation to management override of controls are now well known by management and others within the entity. For example, management will generally expect auditors to focus testing of journal entries on year end or where applicable, consolidation adjustments made in the preparation of group financial statements. As such, if a fraud were to be perpetrated through journal entries, this would be more likely to occur at an earlier point in the year.
- The means and ability to perpetrate fraud is becoming increasingly sophisticated, and difficult to detect, especially where complex IT systems exist, or collusion is involved. For example, fraud may be perpetrated through the manipulation of front-end systems, such as a sales system rather than the expected financial reporting system.
- The motivations and opportunities to perpetrate a fraud at listed entities are very different from those at private entities or owner-managed businesses.

We do not believe that additional audit procedures are necessarily required to address these observations, but are of the view that guidance or amendments to existing requirements may assist auditors in identifying if specific fraud risks exist and in developing appropriate audit procedures to address such fraud risks. This may promote more critical thinking in designing and executing audit procedures rather than auditors 'going through the motions' and checking off the procedures that are required to be performed by the auditing standards.

We would also highlight the existing requirement in paragraph 29(c) to incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures. Over time, unpredictability is becoming increasingly 'predictable' to management. We recommend that consideration is given to the expansion of the application material that provides examples of how unpredictability can be achieved in an audit, including through variation of the nature of the audit procedures performed.

**Q7. In complying with the requirements of ISA (UK) 240 (Revised), the auditor may also need to consider whether there has been non-compliance with laws and regulations, and therefore that requirements in ISA (UK) 250 Sections A and B (Revised November 2019) also apply. Is it sufficiently clear in these ISAs (UK) of the interaction between them?**

We note that ED-ISA (UK) 240 only includes two direct references to ISA (UK) 250 Section A (Revised November 2019) (ISA (UK) 250 Section A)<sup>10</sup> and no direct references to ISA (UK) 250 Section B (Revised November 2019) (ISA (UK) 250 Section B)<sup>11</sup>. The first reference in paragraphs A55-1–A55-2 concerning withdrawal from the engagement by the auditor is largely a repetition of the application material in ISA (UK) 250 Section A for the auditor to determine whether, suspected or actual fraud may give rise to non-compliance with laws and regulations.

We recommend that consideration be given to the inclusion of a direct requirement in ED-ISA (UK) 240 for the auditor to determine whether, suspected or actual fraud may give rise to non-compliance with laws and regulations with appropriate references to the requirements in ISA (UK) 250 Section A and ISA (UK) 250 Section B. Examples, by way of an appendix, of when non-compliance of laws and regulations may indicate fraud may also assist auditors in this respect.

**Q8. Are the requirements and application material sufficiently scalable, including the ability to apply ISA (UK) 240 (Revised) to the audits of entities with a wide range of sizes, complexities and circumstances? If you do not consider this to be the case, please set out why and how you believe that could be addressed.**

<sup>10</sup> ISA (UK) 250 Section A (Revised November 2019), Section A Considerations of Laws and Regulations in an Audit of Financial Statements

<sup>11</sup> ISA (UK) 250 Section B (Revised November 2019), The Auditor's Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector

We are of the view that there are scalability issues in relation to the application of ED-ISA (UK) 240 to entities of different sizes, complexities and circumstances.

In the case of audits of larger and more complex entities, as highlighted above, the proposed requirement to include participation of all members of the engagement team, including specialists in engagement team discussions would be difficult to implement if participation is interpreted as all members of the engagement team being present for the discussion.

For audits of smaller or less complex engagements, the manner in which a fraud is perpetrated is different to that in larger and more complex engagements. As such, we would recommend that consideration is given to including guidance as to how such procedures can be usefully adapted based on the type of entity or its specific circumstances.

**Q9. References to ‘computer assisted audit techniques’ have been updated to ‘automated tools and techniques’ and we have identified that these may enable more extensive testing and assist in identifying unusual transactions or relationships (paragraphs A44, A48 and A50). Is there other guidance in relation to the use of automated tools and techniques that you believe could assist auditors in relation to their obligations with regard to fraud? If you consider there is, please give an explanation of it.**

We appreciate the update of the terminology in the ISAs (UK) for consistency with terminology that has been introduced into the International Standards on Auditing. However, we are of the view, that updating references to ‘computer assisted audit techniques,’ and indicating the areas in which these automated tools and techniques can be used is not sufficient to have a significant effect on the detection of fraud in an audit of financial statements. Frauds are often highly complex or difficult to detect, especially when collusion is involved.

A variety of automated tools and techniques to identify risks of material misstatement are currently available to firms. However, there is understandable caution by firms of using enhanced data analytics given the lack of guidance on how the use of these analytics may affect the more traditional audit procedures performed. We are of the view that further guidance, either in the form of application material or through the provision of non-authoritative staff guidance, is necessary to indicate the automated tools and techniques that are considered to be acceptable and the circumstances in which they would be considered acceptable from a regulator perspective. However, such guidance needs to be balanced and should not infer that the use of such techniques is superior to other techniques the auditor may employ and should also acknowledge the practicalities of using automated tools and techniques across different types of entities. As such, this will allow the auditor to use the most appropriate and cost effective techniques to identify risks of material misstatement arising from actual or suspected fraud.

We also recommend that consideration is given to providing guidance on the use of technological advancements such as:

- Continuous auditing
- Enhanced audit data analytics
- Greater use of technology for analysis of classes of transactions, account balances and disclosures
- Expanded understanding of process design effectiveness and increasing required testing of controls.

We further recommend that consideration is given to the performance of a thematic review on the use of technology in an audit to understand the different types of automated tools and techniques that firms are using and to evaluate their effectiveness in different circumstances. The findings of this review could then be used to provide further guidance to auditors either through additional application material in the ISAs (UK) or through non-authoritative staff guidance. As noted above, such guidance needs to be balanced and should not infer that the use of technology is superior to other techniques the auditor may employ.

**Q10. Do you agree with the proposed effective date of audits of financial statements for periods beginning on or after 14 December 2021, with early adoption permitted, which is aligned with the effective date of ISA (UK) 315 (Revised July 2020)? If not, please give reasons and indicate the effective date that you would consider appropriate.**

We agree that the proposed effective date of audits of financial statements periods beginning on or after 14<sup>th</sup> December 2021. We agree that alignment of the proposed standard with ISA (UK) 315 (Revised July 2020)<sup>12</sup> is appropriate.

**Q11. Should an additional requirement be placed on auditors to have a specific discussion with those charged with governance on the risks of material fraud in the business, including those which are business sector specific, in order to further the risk assessment process in respect of the risk of material error in the financial statements relating to fraud?**

Brydon indicated that his review was an attempt to 'create a complete, holistic package that will turn into something that's much more informative and useful'; that is, it is not a menu of initiatives from which selections can be made, therefore the role of those charged with governance, management and all other stakeholders needs to be addressed, along with other reforms such as Assurance Statements and reporting on internal controls. We are therefore supportive of the inclusion of an additional requirement for auditors to have a specific discussion with those charged with governance on the risks of material fraud in the business, including those which are business sector specific. This not only engages those charged with governance but will also help auditors understand the risks facing the business from the viewpoint of those charged with governance and help them consider whether this is likely to result in a risk of material misstatement due to fraud. Further, to reinforce the requirement, the FRC could issue updated guidance to audit committees outlining what is expected of them in understanding the risks facing the business, including the audit committee's independent consideration of the fraud risks facing the business. This could possibly be included in the UK Corporate Governance Code 2018. We further recommend that consideration is also given to developing a requirement to include discussion of the risks facing the business in the required report to those charged with governance,

**Detailed drafting comments in respect of the Exposure Draft of ISA (UK) 240 (Updated January 2020)**

Paragraph 22 includes the use of analytical procedures to identify unusual or unexpected relationships. Substantive analytical procedures may also be used to identify unusual or unexpected relationships therefore it may be useful to include a similar requirement in the responses to risk requirements section of the standard.

Paragraph 39-1 includes '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'. This is not included as a requirement or in the application material of ISA (UK) 700 (Revised January 2020)<sup>13</sup> and we therefore recommend that it is included as a consequential and conforming amendment to ISA (UK) 700 (Revised January 2020).

Footnote 11d should be changed to read ISA (UK) 700 (Revised January 2020) not ISA (UK) 700 (Revised November 2019).

Paragraph A5a-2 – Currently 'Considerations Specific to Public Sector Entities' is included as the last sentence in this paragraph and this should be changed to a separate paragraph heading.

Paragraph A7-2 – This is application material to a risk assessment requirement, yet it is in respect of concluding whether sufficient appropriate audit evidence has been obtained. We recommend that it is moved to support paragraph 36-1.

<sup>12</sup> ISA (UK) 315 (Revised July 2020), Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and its Environment

<sup>13</sup> ISA (UK) 700 (Revised January 2020) Forming an Opinion and Reporting on Financial Statements

Paragraph A32 – The revisions include the following: ‘... In identifying the controls that address the risks of material misstatement due to fraud, the auditor may learn, for example, that management has consciously chosen to accept the risks associated with a lack of segregation of duties and, if so, the auditor takes account of **that** when identifying and assessing risks’. It is unclear whether ‘that’ refers to the decision to accept the risks, the risk itself or both and we recommend that this is clarified.

Paragraph A61 includes a reference to paragraph A63-1. We question whether this reference is required therefore we recommend deletion.

Paragraph A65 references ISA (UK) 250 (Revised November 2019). We recommend adding the specific section to this paragraph, to read ISA (UK) 250 **Section A** (Revised November 2019) to be consistent with how this ISA (UK) is referred to in other parts of the standard.