

ISA 240 (UK) Consultation Paper and Impact Assessment

Invitation to Comment

Duncan and Toplis Limited Response

Respond by 29 January 2021

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Comment

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.

R1: Yes, the revisions make it clear what the auditor's obligations relating to fraud are. We feel that the requirements were already clear to the reader, but with the addition of paragraph 7.1 and the enhancement to paragraph 10 they have been further clarified.

Perhaps the release of this exposure draft should have been delayed until BEIS had issued their own consultation so that all of the points raised by Brydon, at least relating to auditors' responsibilities could be responded to. Most notably, the proposed changes to the audit report (in addition to those already required by ISA (UK) 700 for periods beginning on or after 15 December 2019.

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.

R2: Yes, the revisions will enhance the level of work required relating to both risk assessment and the responses to identified risks relating to fraud. We feel that the enhanced discussion requirements (18-1) will be particularly powerful, as long as this is practicable.

24-1 & 27-1 could perhaps be clarified further. For example, who would count as a forensic expert? We feel that the stand-back requirement apparent in all recently enhanced ISAs will force the audit team to reflect on the evidence that they have obtained and document that reflection on file.

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.

R3: Yes, but with the understanding that application material cannot cover every eventuality.

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.

R4: As noted in the paper the enhanced standard follows the same path as ISAs 315 and 540 in that test design should not be biased. As with those standards it is important that documentation also does not exclude any contradictory evidence seen. Brydon did suggest a

move to 'suspicion' rather the scepticism. It will be interesting to see if BEIS provide any clarity on their take. We feel (Q3) that the application material provided on paragraphs 12 – 14 will assist the auditor.

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.

R5: In theory this assumption could be spread across every area of the financial statements, although would create a prohibitively excessive process. Rather than an 'automatic' presumption of fraud for a given area, perhaps there could be such a rebuttable presumption where there are other factors in play. For example, for an accounting estimate that is deemed to have a high level of complexity or subjectivity, there could be triggered a rebuttable presumption that, that means that is a significant risk of fraud (although we may indirectly end up at the same point anyway).

There are no (in addition to revenue) other areas that we feel should have such a rebuttable presumption associated with them.

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.

R6: Answering the second point first, we don't believe that there are any other areas of the financial statements that should carry such a non-rebuttable risk. Management override is sufficient.

Regarding the response to that risk, we feel that the use of data analytic tools should be mentioned as a possible response. The use of data analytics (if used properly) can cover 100% of the population, for example verifying every journal posted.

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?

R7: Yes, no suggestions to this question.

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.

R8: Yes, we feel that it is scalable. We feel that the need for absolute clarification by some, is somewhat concerning. At the core, as auditors, we must use our professional judgement

and apply that judgement to separate entities to gain sufficient, appropriate audit evidence, we cannot expect to have every scenario set out before us.

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.

R9: Please also see answer to question 6. IAASB recently issued the following <https://www.iaasb.org/publications/non-authoritative-support-material-using-automated-tools-and-techniques-when-identifying-risks>. This may be of some use in this instance.

Q10: Do you agree with the proposed effective date of audits of financial statements for periods beginning on or after 15 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.

R10: Yes, we see no reason why this should not be aligned with ISA (UK) 315.

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?

R11: We do not feel that this should be an absolute requirement in all circumstance, but it would be reasonable for this to be a requirement in situations where the audit has suspicions regarding management/the risk assessment otherwise points to an enhanced risk of fraud.