Background

- Project started Oct 2009 to address regulatory concerns re:
  - Auditor hiding behind “client confidentiality”
  - Limited auditor toolkit (i.e., only modification of audit report and/or resigning)
- Guidance lacking
  - Process and factors to consider to reach appropriate conclusion
- Auditors vs. professional accountants more broadly
- Started with fraud, now NOCLAR
Background

• Key project objective
  – To create framework to guide professional accountants (PAs) in deciding how best to serve public interest when they come across NOCLAR/suspected NOCLAR

• ED issued Aug 2012
  – Significant concerns across most stakeholder groups re operability of proposals and potential for unintended consequences
Global NOCLAR Roundtables – 2014

• Hong Kong (May), Brussels (June), Washington DC (July)
• Over 160 senior-level participants from wide range of stakeholder groups
• 27 jurisdictions, including 13 G-20 countries
• Observers:
  – IAASB members
  – PIOB members and staff
  – IESBA CAG Chair
Proposed Response Framework
(Appendix 1 Agenda Item 9-A)
Objectives

• For all categories of PAs:
  – Comply with fundamental principles re integrity and professional behavior
  – Seek to have management/TCWG rectify, remediate or mitigate consequences; or deter commission of NOCLAR
  – Take such further action as may be needed in the public interest
Scope

• Scope aligned with ISA 250 scope (all categories of PAs)
  – Those laws and regulations that directly affect financial statements
  – Other laws and regulations that may be fundamental to entity’s business and operations

• No distinction between PIEs and non-PIEs
Differential Approach Given Different Levels of Expectations

- Auditors
  - Non-Auditors
  - Other PAIBs
- Senior PAIBs

IAASB
Auditors

• Proposed standard intended to complement ISA 250
  – Recognizing different objectives of IESBA Code vs ISAs
• Builds on ISA 250 process
  – Obtaining an understanding of the matter
  – Raising it with management/TCWG
  – Evaluating implications of the matter
  – Documentation
Key Areas of Complementarity vis-à-vis ISA 250

• Evaluation of implications to stakeholders in both financial and non-financial terms
• “Substantial harm” vs “material effect on the financial statements”
• Not only NOCLAR that has been committed but that may be committed
• Prompt management/TCWG to address consequences, stop NOCLAR, or report to appropriate authority
• Comply with laws and regulations (L&R) and professional standards
• Determine if further action needed to achieve objectives in public interest
Auditors – Determination of Further Action

• Nature and extent of further action will depend on various factors
• Courses of further action may include:
  – Disclosing the matter to appropriate authority
  – Withdrawing from engagement/client relationship (where permitted by L&R)
• Objective and demanding third party test
  – Would reasonable and informed 3\textsuperscript{rd} party, weighing all the facts and circumstances available at the time, likely conclude that the auditor has acted appropriately in public interest?
Auditors – Documentation

• Builds on documentation requirements under ISAs
• Must include:
  – How management/TCWG have responded to the matter
  – Courses of action considered and decisions taken
  – How the auditor is satisfied objectives under the proposed standard met
PAs in Public Practice Providing Services Other Than Audits

• **Actions**
  – Discuss with appropriate level of management or TCWG
  – If client also an audit client of the firm/network, raise within the firm/consider raising within the network

• **Stand back**
  – Consider whether further action needed, e.g. disclosing to external auditor or appropriate authority
  – Consider whether can remain associated with the client

• **Documentation encouraged**
Strengths of Proposed Framework

- A holistic, comprehensive and balanced model
- A proportionate approach
- Emphasis on tone at the top within entity
- Stimulating increased reporting under law or regulation
- An expanded auditor’s toolkit
- Rigorous consideration of further action in public interest
## Forward Timeline

<table>
<thead>
<tr>
<th>Timing</th>
<th>Action</th>
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<tbody>
<tr>
<td>April 2015</td>
<td>Approval of re-ED (120-day comment period)</td>
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<tr>
<td>May</td>
<td>Discussion with NSS</td>
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<tr>
<td>December</td>
<td>Full review of comments on re-ED</td>
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<td></td>
<td>Discussion with IAASB (?)</td>
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<tr>
<td>March 2016</td>
<td>Approval of final standard (?)</td>
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