

**Meeting:** IESBA CAG  
**Meeting Location:** New York  
**Meeting Date:** March 10, 2014

## Agenda Item

# B

### Responding to Non-Compliance with Laws and Regulations— Report-Back and Issues

#### Objectives of Agenda Item

1. To provide a report-back on proposals of CAG Representatives on this project as discussed at the September 2013 CAG Meeting.
2. To obtain CAG Representatives' views on a revised draft of the proposals as agreed at the December 2013 IESBA meeting.

#### Project Status and Timeline

3. At its March 2013 meeting, the IESBA considered the significant comments received on the Exposure Draft (ED), *Responding to a Suspected Illegal Act*, and an outline of an alternative to the approach set out in the ED regarding a professional accountant's (PA) responsibilities regarding non-compliance or suspected non-compliance with laws and regulations (NOCLAR).
4. At its June and September 2013 meetings, the IESBA considered and provided input on a straw man of the revised proposals. At its December 2013 meeting, the IESBA agreed on a revised NOCLAR text for purposes of further stakeholder consultation through three roundtables to be held in Hong Kong in May, Brussels in June and Washington DC in July 2014.
5. The IESBA will next discuss the project at its October 2014 meeting after the input from the roundtables has been processed. It is anticipated that the IESBA will consider a re-ED for approval at its January 2015 meeting.
6. The Appendix to this paper provides a project history, including links to the relevant CAG documentation.

#### September 2013 CAG Discussion

7. Below are extracts from the draft minutes of the September 2013 CAG meeting,<sup>1</sup> and an indication of how the project Task Force or IESBA has responded to CAG Representatives' comments.

Representatives' Comments	Task Force/IESBA Response
Ms. Molyneux wondered if the straw man has been truly tested in a wide variety of legal	Mr. Franchini noted that the IESBA had received comments on the ED from a number of respondents

<sup>1</sup> The minutes will be approved at the March 2014 IESBA CAG meeting.

Representatives' Comments	Task Force/IESBA Response
<p>environments. She noted that her career experience has been that the accounting profession and the ethics framework in a number of emerging economies are weak, and non-compliance with listing and corporate governance rules is endemic. She expressed the view that PAs operating in those jurisdictions would likely not comply with the straw man proposals. She was of the view that the straw man should be tested in those types of environment, otherwise there will not be much disclosure.</p>	<p>from emerging economies. Notwithstanding that the straw man differs significantly from the ED in some areas, he noted that there was no clear distinction in view on the ED between respondents from emerging economies and those from other parts of the world. He added that the larger jurisdictions and IFAC member bodies did not highlight the ED as needing to be adjusted to address the particular circumstances of emerging economies. He noted that some respondents had pointed out that in a young democracy or in a non-democratic jurisdiction, there could be a problem with a disclosure requirement given uncertainty as to whether one will receive a fair hearing in court. There were, however, no other views on the ED as to whether the provisions should be different from one jurisdiction to another.</p>
<p>Mr. Peyret noted that some years ago in his organization, a task force was set up to address the issue of pressure and suspected illegal acts, among other matters. The task force worked for three years on the topic and finally gave up for two main reasons: (a) the future of a whistle-blower when it comes to speaking out is limited; and (b) in France, the culture within organizations is such that individuals tend to follow instructions and not deviate too far from the norm. He highlighted the main conclusion from this observation is that the likelihood that there will be whistle-blowing is very low unless the organization has established procedures to deal with whistle-blowing. He noted, however, that after a series of accounting scandals, things are changing. In particular, the provision of documents before a judge is now allowed where it would be in the public interest to do so, and this is quite a change from a few years ago. In addition, while a few years ago in France, professional accountants in business (PAIBs) were not permitted to share their concerns with auditors, this has now changed as auditors are now regarded as internal to the entity.</p>	<p>Mr. Franchini noted that this observation demonstrates the risk of establishing a requirement in a global Code in that such a requirement could conflict with local laws.</p>
<p>Ms. Blomme noted that FEE is supportive of the</p>	<p>Support noted.</p>

Representatives' Comments	Task Force/IESBA Response
<p>proposal to align the term “illegal act” with the ISA terminology of non-compliance with laws or regulations.</p>	
<p>She also noted that while there was general agreement within FEE that there can be a number of “shall” requirements in the context of guidance (for example, the PA shall act in good faith), most within FEE felt that some of the requirements in the straw man were going too far (for example, 225.10, 13, 19 and 22). She felt that these should be more in the nature of guidance.</p>	<p>Point taken into account. The Task Force and the Board believe some requirements are necessary to drive action at the appropriate points in the process but otherwise they agree that the focus should be on providing guidance.</p>
<p>With respect to the proposed presumption of disclosure in the case of a public interest entity (PIE) audit, she noted that FEE read it as a hard requirement. She also noted that while there was support for the override of confidentiality, the overarching concern of some was that the link between legal requirements and the Code requirements might be severed. She added that there was uncertainty as to what a “right to disclose where not prohibited” meant, as some in the EU saw this as going beyond their jurisdictional requirements.</p>	<p>Mr. Franchini noted that the concept of a permission to override confidentiality where not prohibited already exists under the Code, and there is no intention to override a legal requirement. With respect to whether the presumption is “rebuttable,” he noted that this is implicit and that there are different views as to whether this needs to be stated.</p>
<p>Mr. Hansen commented that the project is going in the direction where PAs would have a clear responsibility to report to an appropriate authority and an expectation from the public that this would happen.</p>	<p>Point taken into account. After further discussion, the IESBA agreed not to pursue further the alternative of a rebuttable presumption.</p>
<p>He was supportive of the proposal to align terminology with the ISAs, noting that the ISA term would be less pejorative.</p>	<p>Support noted.</p>
<p>In relation to the use of the term “right,” he was of the view that this could be confused with a legal right. Accordingly, he suggested that the Task Force consider using other terms such as “permission” or “discretion.”</p>	<p>Point taken into account. The Code already refers to the concept of a right in Section 140 dealing with confidentiality. Nevertheless, the Task Force has not made any explicit reference to a right to disclose in the proposed Sections 225 and 360.</p>
<p>In addition, he suggested that wherever possible, the wording used in the Code should be made as</p>	<p>Mr. Holmquist agreed with Mr. Hansen’s comment regarding use of positive wording in the Code.</p>

Representatives' Comments	Task Force/IESBA Response
<p>positive as possible (for example, in paragraph 100.5, rather than using the phrase “avoid any action that discredits the profession,” consideration could be given to using the phrase “conduct oneself in a way that would be a credit to the profession”).</p>	
<p>In relation to paragraph 140.10, Mr. James wondered whether the term used should be a “duty” or a “right.” He felt that as drafted, this could mean any of these options whereas there are implications for going either way.</p>	<p>Mr. Franchini noted that the wording in paragraph 140.10 is that used in the extant Code.</p>
<p>In relation to paragraph 225.18 regarding the PA’s judgment as to what would be in the public interest, he questioned how the PA would be able to determine what is in the public interest. He felt that this type of judgment would best be left to regulators. He suggested that it would be better to take the public interest filter at the back end when thinking about the punishment as opposed to at the front end. Accordingly, he wondered what guidance could be provided to PAs to make a decision on behalf of society at large.</p>	<p>In relation to the public interest threshold, Mr. Franchini noted the Task Force’s and Board’s view that it can be dangerous to couple such a threshold with a disclosure requirement. The straw man, however, couples it with a right to disclose, the intention being that in serious circumstances, the PA has a right to override confidentiality. He noted the Task Force’s view that when linked with a right, the public interest threshold is an appropriate one.</p>
<p>In relation to paragraph 225.22, he wondered why there would be a need for the further conditions in paragraph 22(a)-(d) given that the PA would have already made the determination that disclosure would be in the public interest, and the fact that the PA would already have obtained legal advice.</p>	<p>In relation to paragraph 225.22, Mr. Franchini noted that the Task Force had found it difficult to use materiality as an alternative threshold but that the Task Force could revisit the reference to public interest in the lead-in to that paragraph.</p> <p>After further discussion, the IESBA has agreed not to pursue the alternative of a rebuttable presumption. Accordingly, paragraph 225.22 has been deleted.</p>
<p>In relation to documentation, he noted that the encouragement to document is different from a requirement to document, which goes to the enforceability of the standard. He felt that the requirement to document when there is no disclosure where the presumption is rebutted would leave a gap.</p>	<p>Point taken into account. The IESBA has agreed not to pursue the alternative of a rebuttable presumption. In addition, the Task Force notes that a documentation requirement for auditors already exists in the ISAs.</p>
<p>In relation to Mr. James’s comment, Mr. Baumann</p>	<p>Mr. Franchini noted that with respect to paragraph</p>

Representatives' Comments	Task Force/IESBA Response
<p>commented that it is difficult for a PA to determine that a SIA is in fact material to the financial statements, and that this would be almost impossible in some cases. This is because, firstly, the matter is suspected; and, secondly, whether the non-compliance has a material impact on the financial statements is difficult to determine. Accordingly, he was of the view that the combination of uncertainty as to whether something may have happened and the need to think about whether this may be material to the financial statements is a limiting factor on the presumption. In relation to paragraph 225.22(a), he suggested softening the wording of “has a material effect” to wording such as “a reasonable possibility that ....”</p>	<p>225.22, the Task Force was inspired by US Securities and Exchange Commission (SEC) Order 10(a). He agreed, however, that the use of the term “materiality” may need to be reconsidered as it is very sensitive, for example, a bribe that in and of itself may be immaterial but potentially could have a material impact on the financial statements.</p> <p>After further discussion, the IESBA has agreed not to pursue the alternative of a rebuttable presumption. Accordingly, paragraph 225.22 has been deleted.</p>
<p>Mr. Baumann noted his different interpretation of SEC Order 10(A) in that it is more about considering the possible effect on the financial statements, not that the SIA <i>will have</i> a material effect on the financial statements.</p>	<p>Point noted.</p>
<p>Mr. Fukushima suggested using civil or criminal liability as one example when the presumption of disclosure would not be applicable. With respect to a SIA that has a material impact on the financial statements, he noted that auditors usually have a responsibility to modify their audit opinions in such a case.</p>	<p>Mr. Franchini noted that many instances of NOCLAR may be identified early during the audit and not at the end. Accordingly, if the auditor were to resign early because the issue could not be resolved, the matter would remain undisclosed.</p> <p>After further discussion, the IESBA has agreed not to pursue the alternative of a rebuttable presumption. Accordingly, paragraph 225.22 has been deleted.</p>
<p>Mr. Bluhm suggested a need to better understand why there is a difference in approach regarding PIEs and entities that are not PIEs, given the nature of the conditions in paragraph 225.22.</p>	<p>Mr. Franchini noted that the IESBA had determined that there should be a distinction between auditors and non-auditors given the greater imperative for auditors. He also noted that there is a greater fiduciary responsibility for PAs providing non-assurance services vs. PAIBs, and therefore there are different levels of public interest responsibility.</p>
<p>In relation to the circumstance where the PA is resigning from the client relationship, Mr. James noted that the issue raised in IOSCO’s comment</p>	<p>Point accepted. The IESBA is proposing that Section 210 be revised to require communication between an existing accountant and a proposed accountant</p>

Representatives' Comments	Task Force/IESBA Response
<p>letter on the ED is that the incoming auditor may not be aware of the SIA. He noted that IOSCO's suggestion was for the incoming auditor to be informed of the relevant facts by the outgoing auditor. Mr. Fukushima agreed with Mr. James, noting that the lack of communication between the incoming and outgoing auditors was one the main reasons why the significant Olympus fraud went undetected for a long time.</p>	<p>when there is a change of appointment. See Agenda Item B-1.</p>
<p>Ms. Blomme wondered if the IESBA would consider the question of re-exposure.</p>	<p>Mr. Franchini responded in the affirmative.</p>

**Matters for CAG Consideration**

- A. DISCLOSURE OF NOCLAR TO AN APPROPRIATE AUTHORITY
- 8. At its September 2013 meeting, the IESBA considered the alternative of a rebuttable presumption where the client is a PIE audit client and the PA has determined that disclosure would in principle be in the public interest. Under this approach, the presumption would be that the PA would disclose the matter to an appropriate authority when certain conditions are met, including the availability of protection under law or regulation that is sufficiently established to protect the PA from civil or criminal liability. The Task Force noted the concerns of several IESBA members regarding the operability of such an approach in a Code for global application, even under the defined limited circumstances. Among those concerns were views that a rebuttable presumption would amount to a de facto requirement in practical terms (a view also expressed at the CAG as noted in the above report-back), and that whether this approach would be workable would depend on the existence of a fair and trusted legal process and one that was accustomed to dealing with the concept of a rebuttable presumption.
- 9. Having further reflected on the matter, the Task Force agreed that the real issue is not about whether disclosure to an appropriate authority would be justified if doing so would be in the public interest, but about *compelling* the PA to do so. The Task Force believes that establishing a presumption or requirement in the Code would presuppose the existence of a legal framework and process accustomed to dealing with a rebuttable presumption or requirement of disclosure, and not merely the availability of sufficiently established legal protection from civil or criminal liability. Given the wide variation in legal frameworks around the world and in the degree to which they are developed, the Task Force felt that it would be inappropriate and unreasonable for a Code for global application to establish a presumption or requirement of disclosure based on such presupposition, nor to compel the PA to take a leap of faith that the legal process will be sufficiently robust to deal with any adverse consequences for the PA or indeed make the PA whole given the potential costs of disclosure.
- 10. The Task Force believes that it is, and should be, within the proper authority, purview and power of national legislators or regulators to establish a disclosure obligation for PAs, as in fact is the case in a number of jurisdictions around the world that already mandate disclosure by PAs in the context of

audits of financial statements. Further, in the context of the responses to the ED and further discussions with regulators and audit oversight bodies, the regulatory community as a whole has not argued, nor made a case, that the Code must impose a disclosure obligation on PAs in the circumstances envisaged.

11. The Task Force therefore came to the view that it would not be appropriate to pursue a rebuttable presumption or a requirement. Instead, the Task Force proposes the following approach:
  - With respect to the reporting process, first recognizing that if there already are legal or regulatory provisions in place governing the reporting of non-compliance, the PA must comply with those provisions (see paragraph 225.19 of Agenda Item B-1).
  - Where there are no such legal or regulatory provisions, requiring the PA to consider whether to nevertheless disclose the matter to an appropriate authority, provided of course that such reporting would not be contrary to law or regulation (see paragraph 225.20). This will require a consideration of the gravity of the matter in terms of likely consequences (financial and non-financial) to those potentially affected by the matter. As an illustration of what is intended, the Task Force proposes guidance to explain that an auditor of a listed entity would take into account the consequences to the investing public.
  - Making it clear that if the PA then decides to voluntarily disclose in such a situation, “this would not be considered a breach of the duty of confidentiality under the Code” (see paragraph 225.23). The Task Force believes that this wording sends a stronger and more positive message than what was previously suggested in the straw man, i.e., that the PA “is permitted to override the duty of confidentiality under the Code.”
  - To assist the PA in deciding whether to report in the circumstances, providing guidance regarding the need to consider the degree to which relevant information is known and substantiated, and whether there is an appropriate authority to receive the information. In this regard, the Task Force proposes a refinement to the description of an appropriate authority, i.e., that it is one that has acknowledged that it can receive the information and cause the matter to be investigated (see paragraph 225.21).
  - Recognizing further that the existence of whistle-blowing protection from civil or criminal liability may be a factor to consider in deciding whether to report (see paragraph 225.21).
12. The Task Force believes that this approach is a practicable way forward and, together with the proposal that the Code mandate communication between successor and predecessor auditors in the case of audits of financial statements (see Issue C below), would raise the bar significantly relative to where the Code stands today. The Task Force believes that the Code has to work within the context of laws and regulations established by governments and regulators in different jurisdictions. This means that the Code cannot set requirements that conflict with or override those laws and regulations, nor can it provide protection from the consequences of disclosure in the public interest. The Task Force also believes that the Board should seek to set high standards for PAs through its responsibility for the Code, while also engaging with the representatives of legislators, regulators, investors, those charged with governance (TCWG) and other stakeholders to build a shared understanding of the issues involved and how best to respond to them.
13. At its December 2013 meeting, the IESBA broadly agreed with the Task Force’s proposals but provided structural and editorial suggestions for the proposed text.

**Matter for CAG Consideration**

1. Do Representatives agree with the Task Force's proposals above?

**B. MATERIALITY FILTERS**

14. One of the preconditions for the presumption of disclosure that the IESBA considered at the September 2013 meeting was that the matter has a material impact on the financial statements and those financial statements have not been adjusted to reflect that impact. Notwithstanding Board concerns regarding the appropriateness of establishing materiality as a precondition in this context, it was noted that this test of materiality comes late in the process and it should rather come earlier to avoid the PA having to put every matter that is other than clearly inconsequential through the process of investigation and resolution.
15. The Task Force first agreed that as a matter of *ethical principle*, every identified or suspected NOCLAR should be a matter of concern for the PA regardless of the significance or potential impact of the non-compliance. The Task Force, however, recognized that the Code is a body of standards for practical application and it would not serve the public interest if the Code were impracticable for PAs to apply. Accordingly, the Task Force agreed that it would be appropriate to introduce a materiality filter at the front end of the process, although this would not necessarily be intended to indicate that every identified or suspected NOCLAR that passes this filter will be material to the financial statements.
16. The Task Force proposes that this be done at the following two stages:
  - At the point when the PA becomes aware of information concerning potential non-compliance, the PA should seek to obtain an understanding of such a matter as long as it is *other than clearly inconsequential* (see paragraph 225.5). At this point in the process, the PA will generally have only a limited amount of information concerning the matter and it is only appropriate that the scope be fairly wide in terms of seeking an understanding of the nature and implications of such matters. Nothing in the Code of course will preclude the PA from pursuing matters that are clearly inconsequential should the PA choose to do so.
  - At the point of understanding what actions the client, its management or TCWG plan to take to address the matter and then evaluating their response, the Task Force felt that these efforts should more narrowly focus on matters that could have *significant consequences for the client or others* (see paragraphs 225.9(b) and 225.14). At that stage of the process, after having discussed the matter with the client to confirm the PA's understanding of the facts and circumstances and the potential consequences, the PA should have an appreciation of whether or not the matter could have significant consequences for the client or others. It will be a matter of the PA's professional judgment as to whether a particular matter could have significant consequences in this regard. Again, nothing in the Code will preclude the PA from pursuing matters that would not likely have significant consequences should the PA choose to do so.
17. Thereafter in the process through to consideration of whether to report to an appropriate authority, the PA's efforts will focus only on matters that could have significant consequences for the client or others. The Task Force believes this approach gives due regard to proportionality of work effort and costs of implementation.

18. At its December 2013 meeting, the IESBA broadly supported the Task Force's proposals.

**Matter for CAG Consideration**

2. Do Representatives agree with the Task Force's proposals above?

C. COMMUNICATION BETWEEN SUCCESSOR AND PREDECESSOR AUDITORS

19. Under extant paragraph 210.11, the Code currently suggests as a safeguard that when considering taking up a new appointment with a prospective client, a PA ask the existing PA to provide known information on any facts or circumstances that, in the existing PA's opinion, the proposed PA needs to be aware of before deciding whether to accept the engagement.
20. At the September IESBA 2013 meeting, several IESBA members emphasized the importance of communication between the successor and predecessor auditors in the case of audits of financial statements. It was recognized that it would not be in the public interest if an instance of NOCLAR were to be simply dropped as a result of the withdrawal of the existing auditor from the client relationship without a potential successor being alerted to it. In addition to this issue being raised at the CAG as noted in the above report-back, the International Organization of Securities Commissions (IOSCO) had in its response to the ED recommended that the Board consider requiring the predecessor auditor to notify a successor auditor of the non-compliance so that the latter understands the risk of accepting the engagement. Further, a recommendation arising from the International Auditing and Assurance Standards Board's (IAASB's) Audit Quality project was for the IESBA to consider improving information sharing between audit firms when one firm decides to resign from, or is not reappointed to, an audit engagement.
21. The Task Force recognizes the potential benefits that may flow from the Code mandating communication between successor and predecessor auditors. In particular, this could more effectively lead to desired outcomes in the public interest in terms of prompting appropriate actions by management or TCWG to respond to NOCLAR, or deterring the commission of NOCLAR, than what might otherwise be achieved in the Code. The Task Force also has considered existing practice in Canada and the UK where the national ethical requirements in this area are more demanding. Canada, in particular, already has a requirement with respect to communication between successor and predecessor auditors and a further related requirement regarding sharing by a predecessor auditor of information concerning suspected fraud or other illegal activity with a possible successor auditor.<sup>2</sup>

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<sup>2</sup> Canadian Rule of Professional Conduct 302, *Communication with Predecessor*

- .1 A member shall not accept an engagement with respect to the practice of public accounting or the public practice of a function not inconsistent with public accounting, where the member is replacing another member or public accountant, without first communicating with such person and inquiring whether there are any circumstances the member should take into account which might influence the member's decision whether or not to accept the engagement.
- .2 The incumbent member shall respond promptly to the communication referred to in Rule 302.1.
- .3 A member responding to a communication pursuant to Rule 302.2 shall inform the possible successor if suspected fraud or other illegal activity by the client was a factor in the member's resignation or if, in the member's view, fraud or other illegal activity by the client may have been a factor in the client's decision to appoint a successor.

22. In the light of the above, the Task Force has reconsidered its previous reservations about establishing a communication requirement between successor and predecessor auditors in the Code. The Task Force thus proposes that Section 210 be amended as follows:
- Requiring in the case of an audit of financial statements that a proposed PA request the existing PA to provide known information regarding any facts or circumstances that, in the existing PA's opinion, the proposed PA needs to be aware of before deciding whether to accept the engagement (see paragraph 210.13).
  - If the client fails or refuses to grant the existing PA permission to discuss the client's affairs with the proposed PA, requiring the existing PA to report this fact to the proposed PA; and requiring the proposed PA to then carefully consider such failure or refusal when determining whether or not to accept the appointment (see paragraph 210.11).
  - Making a consequential change to paragraph 210.9 to delete the indication in the current Code that depending on the nature of the engagement, direct communication with the existing PA may be required to establish the facts and circumstances regarding the proposed change of appointment.
23. These proposed requirements will, importantly, need to operate within the constraints of client consent and the specific requirements of the legal, regulatory and ethical framework in the particular jurisdiction. Accordingly, the Task Force proposes retaining the current provisions in paragraphs 210.11-12 to the effect that whether the existing PA is able to discuss the client's affairs with the proposed PA is subject to client consent and the prevailing national legal, regulatory or ethical requirements regarding such communication and disclosure.
24. A concern was expressed during the September 2013 IESBA discussion that the most significant obstacle to introducing a communication requirement in the Code would be whether legal protection exists given that the information conveyed by the existing PA could include an allegation of wrongdoing. The Task Force did not share the view that the absence of legal protection should be an impediment to the existing PA communicating with the proposed PA given that the communication would be made confidentially and subject to the client's consent to enable the proposed PA to determine whether or not to accept the appointment. Further, the proposed PA would be bound by the overriding duty of confidentiality under the Code.
25. With respect to the scope of the proposed communication requirement, the Task Force felt that it would be appropriate to limit the requirement to audits of financial statements given the greater public interest role of auditors. Therefore, in all other cases, the Task Force proposes that communication with an existing PA continue to be a possible safeguard, subject to the relevant facts and circumstances (see paragraph 210.9).
26. Finally, notwithstanding the fact that Section 210 would be a natural home for the communication requirement, the Task Force considered whether the requirement would be better placed in auditing standards given that it would apply only in relation to audits of financial statements. The Task Force believes that to drive the appropriate ethical conduct by auditors, which would serve to enhance audit quality, the requirement should be in the Code. Further, by complementing the provisions in the proposed Section 225, the requirement would serve to raise the bar in the Code in a practicable way for auditors in responding to NOCLAR by clients. In the Task Force's view, this approach also

would complement the ISAs given that ISA 300 already requires a successor auditor to communicate with a predecessor auditor in compliance with relevant ethical requirements.<sup>3</sup>

27. At its December 2013 meeting, the IESBA supported the Task Force's proposals but also agreed that the proposed revised Section 210 should contain a further requirement for the existing PA to communicate with the proposed PA if the client has consented to the communication. This is to address the possibility of the existing PA choosing not to cooperate with the proposed PA even if the client has given consent. (See paragraph 210.13.)

**Matter for CAG Consideration**

3. Do Representatives agree with the Task Force's proposals above?

D. DOCUMENTATION

28. On the IESBA's instruction, the Task Force has added guidance to highlight the importance of careful and thoughtful documentation given that any documentation the PA prepares can be subject to legal discovery (see paragraphs 225.26 and 360.24).
29. At its December 2013 meeting, the IESBA supported the proposed guidance.

**Matters for CAG Consideration**

4. Do Representatives agree with the proposed guidance on documentation?

E. PROPOSED SECTION 360 – PAIBS

30. The Task Force has generally conformed Section 360 to the changes proposed in Section 225.

**Matter for CAG Consideration**

5. Representatives are asked for any comments on the revised Section 360 in the straw man.

**Material Presented – CAG Paper**

Agenda Item B-1      Responding to Non-Compliance with Laws or Regulations

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<sup>3</sup> ISA 300, *Planning an Audit of Financial Statements*, paragraph 13, states the following:

The auditor shall undertake the following activities prior to starting an initial audit:

- (a) Performing procedures required by ISA 220 regarding the acceptance of the client relationship and the specific audit engagement; and
- (b) Communicating with the predecessor auditor, where there has been a change of auditors, in compliance with relevant ethical requirements.

**Project History**

**Project: Responding to a Suspected Illegal Act**

**Summary**

	<b>CAG Meeting</b>	<b>IESBA Meeting</b>
Project commencement	March 2010 September 2010	October 2009 November 2010
Development of proposed international pronouncement (up to exposure)	March 2011 September 2011 March 2012	February 2011 June 2011 October 2011 February 2012 April 2012 June 2012
Exposure	August 2012 – December 2012	
Consideration of respondents' comments on exposure and development of revised proposals	April 2013 September 2013	March 2013 June 2013 September 2013 December 2013

**CAG Discussions: Detailed References**

<b>Project Commencement</b>	<p><u>March 2010</u></p> <p>See IESBA CAG meeting material:  <a href="http://www.ifac.org/sites/default/files/meetings/files/5271.pdf">http://www.ifac.org/sites/default/files/meetings/files/5271.pdf</a></p> <p>See CAG meeting minutes (section C of the following material):  <a href="http://www.ifac.org/sites/default/files/meetings/files/5699_0.pdf">http://www.ifac.org/sites/default/files/meetings/files/5699_0.pdf</a></p> <p><u>September 2010</u></p> <p>See IESBA CAG meeting material:  <a href="http://www.ifac.org/sites/default/files/meetings/files/5676_0.pdf">http://www.ifac.org/sites/default/files/meetings/files/5676_0.pdf</a></p> <p>See CAG meeting minutes (section C of the following material):  <a href="http://www.ifac.org/sites/default/files/meetings/files/6002_0.pdf">http://www.ifac.org/sites/default/files/meetings/files/6002_0.pdf</a></p>
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<p><b>Development of Proposed International Pronouncement (Up to Exposure)</b></p>	<p><u>March 2011</u></p> <p>See IESBA CAG meeting material:  <a href="http://www.ifac.org/sites/default/files/meetings/files/6011_0.pdf">http://www.ifac.org/sites/default/files/meetings/files/6011_0.pdf</a></p> <p>See CAG meeting minutes (section D of the following material):  <a href="http://www.ifac.org/sites/default/files/meetings/files/20110815-IESBA%20CAG%20-Agenda%20Item%20A-1%20-%20Draft%20CAG%20Minutes%20-%20New%20York%20March%202011.pdf">http://www.ifac.org/sites/default/files/meetings/files/20110815-IESBA%20CAG%20-Agenda%20Item%20A-1%20-%20Draft%20CAG%20Minutes%20-%20New%20York%20March%202011.pdf</a></p> <p><u>September 2011</u></p> <p>See IESBA CAG meeting material:  <a href="http://www.ifac.org/sites/default/files/meetings/files/20110831-IESBA%20CAG%20-%20Agenda%20Item%20C%20-%20Responding%20to%20a%20Suspected%20Illegal%20Act.pdf">http://www.ifac.org/sites/default/files/meetings/files/20110831-IESBA%20CAG%20-%20Agenda%20Item%20C%20-%20Responding%20to%20a%20Suspected%20Illegal%20Act.pdf</a></p> <p>See CAG meeting minutes (section C of the following material):  <a href="http://www.ifac.org/sites/default/files/meetings/files/20120217-IESBA%20CAG-%20Agenda%20Paper%20A-1%20-%20Draft%20IESBA%20CAG%20Sept%202011%20Minutes_0.pdf">http://www.ifac.org/sites/default/files/meetings/files/20120217-IESBA%20CAG-%20Agenda%20Paper%20A-1%20-%20Draft%20IESBA%20CAG%20Sept%202011%20Minutes_0.pdf</a></p> <p><u>March 2012</u></p> <p>See IESBA CAG meeting material:  <a href="http://www.ifac.org/sites/default/files/meetings/files/20120227-IESBA%20CAG%20-%20Agenda%20Paper%20D%20-%20Responding%20to%20a%20Suspected%20Illegal%20Act.pdf">http://www.ifac.org/sites/default/files/meetings/files/20120227-IESBA%20CAG%20-%20Agenda%20Paper%20D%20-%20Responding%20to%20a%20Suspected%20Illegal%20Act.pdf</a></p> <p>See CAG meeting minutes (section D of the following material):  <a href="http://www.ifac.org/sites/default/files/meetings/files/Agenda%20Paper%20A-1%20-%20Draft%20CAG%20Minutes.pdf">http://www.ifac.org/sites/default/files/meetings/files/Agenda%20Paper%20A-1%20-%20Draft%20CAG%20Minutes.pdf</a></p>
<p><b>Consideration of Respondents' Comments and Development of Revised Proposals</b></p>	<p><u>April 2013</u></p> <p>See IESBA CAG meeting material:  <a href="http://www.ifac.org/sites/default/files/meetings/files/Agenda%20Item%20B%20-%20Suspected%20Illegal%20Acts%20-%20Cover%20Note.pdf">http://www.ifac.org/sites/default/files/meetings/files/Agenda%20Item%20B%20-%20Suspected%20Illegal%20Acts%20-%20Cover%20Note.pdf</a></p> <p>See CAG meeting minutes (section B of the following material):  <a href="http://www.ifac.org/sites/default/files/meetings/files/Agenda%20Item%20A%20-%20Draft%20April%202013%20CAG%20Minutes%20(Mark-Up).pdf">http://www.ifac.org/sites/default/files/meetings/files/Agenda%20Item%20A%20-%20Draft%20April%202013%20CAG%20Minutes%20(Mark-Up).pdf</a></p> <p>See report back on April 2013 meeting in the following material:  <a href="http://www.ifac.org/sites/default/files/meetings/files/Agenda%20Item%20F%20-%20SIA%20Report-Back%20and%20Issues.pdf">http://www.ifac.org/sites/default/files/meetings/files/Agenda%20Item%20F%20-%20SIA%20Report-Back%20and%20Issues.pdf</a></p> <p><u>September 2013</u></p>

	<p>See IESBA CAG meeting material:</p> <p><a href="http://www.ifac.org/sites/default/files/meetings/files/Agenda%20Item%20F%20-%20SIA%20Report-Back%20and%20Issues.pdf">http://www.ifac.org/sites/default/files/meetings/files/Agenda%20Item%20F%20-%20SIA%20Report-Back%20and%20Issues.pdf</a></p> <p>See CAG meeting minutes (section F of the following material):</p> <p><a href="http://www.ifac.org/sites/default/files/meetings/files/Agenda%20Item%20A-1%20-%20Draft%20September%202013%20CAG%20Minutes%20(mark%20up).pdf">http://www.ifac.org/sites/default/files/meetings/files/Agenda%20Item%20A-1%20-%20Draft%20September%202013%20CAG%20Minutes%20(mark%20up).pdf</a></p> <p>See report back on September 2013 meeting in this paper.</p>
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