

Responding to Non-Compliance or Suspected Non-Compliance with Laws or Regulations—Issues and IAASB Task Force Recommendations

Objective of the IAASB discussion

The objectives of this Agenda Item are:

- To set out the Task Force’s recommendations relating to the comments from the March and April 2016 IAASB meetings in respect of the July 2015 Exposure Draft (ED), *Responding to Non-Compliance or Suspected Non-Compliance with Laws or Regulations* (NOCLAR).
- To address comments from respondents that have not previously been brought to the IAASB’s attention.
- To seek the IAASB’s approval of proposed International Standard on Auditing (ISA) 250 (Revised)¹ and the related conforming amendments to other International Standards for submission to the Public Interest Oversight Board (PIOB).

Introduction

1. At the IAASB April 2016 teleconference, the IAASB considered the significant issues raised at the IAASB March 2016 meeting. Further concerns were raised by the IAASB during the teleconference in respect of the definition of non-compliance in paragraph 12 (previously paragraph 11) of ISA 250, the articulation of the auditor’s responsibility to consider reporting NOCLAR to an appropriate authority in paragraph 29 (previously paragraph 28) and the related application material, responding to NOCLAR in the circumstances of group audits and quality control within firms relating to the communication of NOCLAR.
2. Subsequent to the finalization of the March 2016 agenda materials, two additional comment letters were identified – the International Organization of Securities Commissions (IOSCO) and KPMG. Accordingly, the views of these respondents had not been considered in the preparation of the issues paper presented to the Board in March 2016. Some of the comments have not previously been brought to the attention of the IAASB, and have been included in the issues paper below.

Response to Comments from the IAASB April 26 Teleconference

A. The Responsibility to Report NOCLAR to an Appropriate Authority

IAASB Comments

3. The Task Force was asked to further amend the revised wording in paragraph 29 of ISA 250, as some members were of the view that the phrase “in relation to reporting” is not

¹ ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*

sufficiently clear. An important factor to consider in drafting paragraph 29 is that, in some cases, the auditor is only required to *determine* whether to report NOCLAR, and therefore does not have an explicit reporting requirement. Some IAASB members again noted the difference in terminology between the ISAs, which use the phrase “report”, and the International Ethics Standards Board for Accountant’s (IESBA) NOCLAR pronouncement, which uses the phrase “disclose”.

4. The majority of the Board did not agree with including the second sentence in paragraph 29, which dealt with the duty of confidentiality. It was seen to be confusing as well as duplicative of application material.
5. Further changes to the application material were also suggested, for example to explain how the auditor practically addresses circumstances where there is a conflict between the duty of confidentiality and a right or responsibility to report NOCLAR. The Task Force was also asked to consider whether the ordering of the application material was consistent with how decisions regarding NOCLAR would normally be reached, with some concern expressed by the PIOB observer that the current sequencing could be viewed as not promoting disclosure of NOCLAR.
6. Two members did not agree with including a specific reference to the *Code of Ethics for Professional Accountants* (IESBA Code) in paragraph A30 (previously paragraph A19d), on the basis that not all jurisdictions apply the IESBA Code, which could unduly call into question whether auditors in those jurisdictions are in compliance with the ISAs.

Task Force Recommendations

7. The Task Force recognized the difficulty in describing the various ways in which law, regulation or relevant ethical requirements may establish reporting of NOCLAR to an appropriate authority, i.e. a requirement to report, a requirement to determine whether to report, a right to report, or other possible requirements. Describing these varied circumstances concisely in paragraph 29 is therefore challenging. Accordingly, the Task Force proposes more generically describing these requirements, by emphasizing not only on the fact that reporting is required in certain circumstances (e.g., when required by law or regulation), but also acknowledging the possibility that reporting is not required but may be “appropriate” (e.g., when reporting is deemed an appropriate action in accordance with the IESBA Code or the auditor has a right to report and chooses to exercise that right). The Task Force believes that “in accordance with” more clearly links the consideration by the auditor to the requirements contained in law, regulation or relevant ethical requirements.
8. In order to provide additional support to the requirement in paragraph 29, the Task Force proposes the inclusion of application material in paragraph A28 that introduces the various scenarios covered in paragraphs A29–A31, which takes into account the approach to paragraph 29 that the Task Force proposed in the March 2016 agenda materials.
9. The Task Force has already considered the consistency of the phrasing with the IESBA NOCLAR pronouncement, i.e. the use of “disclose” instead of “report”, and presented these recommendations to the Board at the March 2016 meeting. The Task Force was of the view that the use of the term “report” is well-understood by auditors and is used

elsewhere in the ISAs to describe communications with regulatory authorities, whereas using the term “disclose” in a NOCLAR context would be confused with similar words that have a different connotation in the ISAs, for example disclosure in the financial statements. Because of these considerations, the Task Force continues to believe that the use of the term “report” in the ISAs is appropriate, and would not be viewed as a substantive difference from the IESBA Code.

10. The second sentence of paragraph 29 addressing the duty of confidentiality (as presented in the April 2016 agenda material) has been removed, as the duty of confidentiality is more comprehensively addressed in paragraph A32.
11. The Task Force does not believe that it would be appropriate to provide further guidance on circumstances where there is a conflict between the duty of confidentiality and a right or responsibility to report NOCLAR, as the auditor would need to consider the circumstances of their jurisdiction in resolving such conflicts, which is a matter too granular and complex to be addressed in the ISAs. An amendment to paragraph 24 of ISA 210² was already proposed to the Board at its March 2016 meeting, which recommends the inclusion of certain matters in the terms of engagement regarding the communication of NOCLAR to an appropriate authority, which is a potential course of action that could assist in resolving such conflicts.
12. In light of comments received, the Task Force reconsidered the direct reference to the IESBA Code in paragraph A30 and the organization of the application material in paragraphs A29–A33 (previously A19a–A19d). The Task Force is of the view that, in order to achieve the objective of the IAASB’s NOCLAR project (i.e. to address actual or perceived inconsistencies between the International Standards and the IESBA Code), it is necessary in ISA 250 to give prominence to the IESBA Code.
13. However, recognizing the concerns by a few members, the Task Force is of the view that the reference to the IESBA Code in paragraph A30 is only used as an example of an approach that may be taken in relevant ethical requirements. Including this example would not preclude the use of the ISAs by jurisdictions who apply codes other than the IESBA Code. This treatment is consistent with the Board’s previous consideration of how to acknowledge the IESBA’s requirements in relation to breaches of independence in ISA 260 (Revised).³
14. With respect to the ordering of the paragraphs within application material, the Task Force considered what would be a usual logical process followed by the auditor and has structured the material according to this sequence:
 - (a) Determine if there is a legal requirement to report.
 - (b) Determine if there is an ethical requirement to either report or to determine whether to report (e.g., the IESBA approach).

² ISA 210, *Agreeing the Terms of Audit Engagements*

³ ISA 260 (Revised), *Communication with Those Charged with Governance*

- (c) If there is neither a legal or ethical requirement to report, determine whether there is some other right to report.
 - (d) Determine if there is a legal prohibition on reporting due to a confidentiality requirement.
 - (e) Once it is identified that reporting by the auditor needs is either required or appropriate, acknowledging that consulting with others or obtaining legal advice could be part of the process to inform how best to do so.
15. The Task Force has also proposed some other editorial amendments to the application material in response to Board comments and offline suggestions, in particular to clarify reporting for financial institutions.

Matter for IAASB Consideration

1. Does the IAASB believe that paragraph 29 of ISA 250 and related application material is sufficiently clear in terms of explaining the auditor’s responsibility with respect to reporting NOCLAR, given the various scenarios that need to be addressed by this requirement? If not, why?

B. Definition of Non-Compliance

IAASB Comments

16. Many members were supportive of revising the wording of paragraph 12(b) (previously paragraph 11(b)) in response to a change by the IESBA in finalizing the NOCLAR pronouncement, which removed the reference to “persons” in Section 225.9(b). However, some members questioned the necessity of having paragraph 12(b) in the definition, since the definition is already clear about what is considered to be non-compliance, and suggested that it could be relocated to the application material.
17. One member continued to express concern with the relocation of the sentence that deals with “transactions entered into by, or in the name of, the entity, or on its behalf, by those charged with governance, management or other individuals working for or under the direction of the entity” from the definition to the application material in paragraph A8. This member was concerned that not all stakeholders would agree that this text in extant ISA 250 is an illustration of non-compliance.
18. There was also a request to provide clarity regarding personal misconduct related to the business activities of the entity that would be considered to be within the scope of ISA 250, through the use of an example.

Task Force Recommendations

19. The IESBA NOCLAR pronouncement explains non-compliance in two sections; Section 225.2 explains what non-compliance is, while Section 225.9 of the IESBA NOCLAR pronouncement explains what is not addressed in the IESBA NOCLAR pronouncement (i.e., those matters that had been referenced in paragraphs 12(a)–11(b) of ISA 250 – personal misconduct unrelated to the business and non-compliance by third parties).

There are only limited circumstances in the ISAs that explain what is not included within a particular definition, and in all such cases the description is necessary to the context of the definition (for example, in ISA 220⁴ the definition of engagement team explicitly notes that the auditor’s external expert engaged by the firm is not part of the engagement team).

20. Accordingly, the Task Force proposes retaining the first part of the definition of non-compliance in paragraph 12 of ISA 250, to closely align with the IESBA pronouncement, while relocating the material in paragraphs 12(a)–(b) to the application material. The Task Force is of the view that retaining this material as application material in ISA 250 is important to demonstrate alignment between the ISAs and the IESBA NOCLAR pronouncement (see paragraph A10 of **Agenda Item 3-B**).
21. The history of the definition of non-compliance in ISA 250 and the IESBA NOCLAR pronouncement was investigated prior to the April 26th teleconference. The intention of the IESBA was to ensure alignment of the meaning of non-compliance with the definition in ISA 250. However, the IESBA did not believe that it would be necessary to include the example relating to “transactions” in its definition of non-compliance, as this was implied in the phrase “acts of commission.” Importantly, the IESBA felt that focusing on transactions might inadvertently lead auditors and other professional accountants to take a narrow interpretation of the scope of matters covered by the NOCLAR sections of the IESBA Code. For example, the dumping of harmful by-products into a river by a chemical company or bribery of public officials to secure large contracts would be instances of NOCLAR covered by the Code but such acts would not be transactions per se.
22. The Task Force acknowledges that there may be varying interpretations in practice regarding whether personal misconduct *related to* the business activities of the entity is included in the scope of ISA 250. As such, the Task Force believes that clarification of the scope of ISA 250 would be helpful. While the Task Force believes that clarification has been achieved in the proposed revised definition and supporting application material, it is also of the view that the addition of an example may be helpful (see paragraph A9 of **Agenda Item 3-B**). The example given in that paragraph was considered to be an appropriate one, since in most jurisdictions bribery would be considered a wholly unacceptable offence, and the impact of bribery in terms of the consideration of the integrity of management would most likely be significant.

Matter for IAASB Consideration

2. Does the IAASB agree with relocating the sections of the definition of non-compliance that explain what is not included in non-compliance to application material?
3. Does the IAASB believe that the example in paragraph A9 of ISA 250 provides clarity regarding the meaning of personal misconduct related to the business activities of the entity?

C. Group Audits

⁴ ISA 220, *Quality Control for an Audit of Financial Statements*

IAASB and Respondent's Comments

23. Concern was raised about the additional requirements in the IESBA NOCLAR pronouncement to communicate NOCLAR in the circumstances of group audits. A few members were somewhat apprehensive about the IAASB's decision at the March 2016 meeting to not make any revisions to ISA 600⁵ to address NOCLAR at this time and instead include the issue in the IAASB's ongoing project in relation to ISA 600. These members were of the view that, because those revisions would only come into effect in several years' time, this would result in a temporary gap between the IESBA Code and the ISAs, which would be unhelpful. Accordingly, it was suggested the Task Force could explore whether a new requirement could be included in ISA 250 (Revised) to alert auditors to the additional responsibilities in respect of group audits contained the IESBA NOCLAR pronouncement, which could be deleted at a later stage when ISA 600 is revised. During the meeting, the Task Force Chair noted that adopting an approach of making temporary revisions to the ISAs was not the usual practice and would need to be thoroughly considered by the IAASB before implementing these types of changes.
24. IOSCO also recommended in their response to the ED that paragraphs 40 to 42 of ISA 240⁶ dealing with the communication of fraud to management and those charged with governance should encompass NOCLAR occurring at a component. The requirements of paragraphs 20 and 23–25 of ISA 250 are similar to paragraphs 40–42 of ISA 240.

Task Force Recommendations

25. ISA 600 already contains requirements and application material regarding communication between the group engagement team and component auditors, as well as communications with group management and those charged with governance and component management. In particular, paragraph 41(d) of ISA 600 requires the group engagement team to request the component auditor to communicate ... "information on instances of non-compliance with laws or regulations that could give rise to a material misstatement of the group financial statements". Paragraph A29 of ISA 600 also notes that the group engagement team's discussions, which may involve component auditors, provide an opportunity to ... "share information that may indicate non-compliance with national laws or regulations, for example, payments of bribes and improper transfer pricing practices".
26. At its March 2016 meeting, the IAASB generally agreed with the Task Force's recommendation that immediate revisions to ISA 600 should not be made in light of the IAASB's current project related to group audits.
27. In addition, the Task Force believes the inclusion of a new requirement (either in ISA 250 or ISA 600) drawing attention to the additional responsibilities of the auditor under the

⁵ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

⁶ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

IESBA NOCLAR pronouncement relating to group audits would be inappropriate for the following reasons:

- The objective of the IAASB's NOCLAR project is to address actual or perceived inconsistencies between the ISAs and the IESBA NOCLAR pronouncement, and is not meant to achieve full alignment between the two. In this regard, there are many other requirements in the IESBA NOCLAR pronouncement that go beyond the requirements of ISA 250 or other ISAs by prescribing a more specific approach to addressing identified or suspected NOCLAR (for example, informing management to address the matter, assessing the appropriateness of management's response to the non-compliance and the application of the third-party and public interest tests).
- Adding a new requirement to address communication of NOCLAR in group audit situations in the ISAs would extend the communication requirement in the IESBA's NOCLAR pronouncement to those jurisdictions that do not follow the IESBA Code.
- As indicated by the IESBA NOCLAR Task Force Chair, the main objective of the requirements relating to group audits in the IESBA NOCLAR pronouncement is to ensure that non-compliance pervasive to the group as a whole is appropriately dealt with at all levels impacted by such non-compliance. The IESBA NOCLAR pronouncement does not acknowledge the concept of materiality because of the nature of non-compliance from a behavioral perspective and the intention of IESBA in trying to combat such behaviors. From an audit perspective, where the NOCLAR is possibly material to the group, it would be already expected to be communicated through the mechanisms of ISA 600.

28. Notwithstanding this view, the Task Force understands the concerns regarding the need to draw attention to the strengthened requirements in the IESBA NOCLAR pronouncement and recommends that additional emphasis on NOCLAR in group audits be included in ISA 250 as follows:

- Within the requirements, explaining that relevant ethical requirements establish additional requirements beyond the ISAs, including with respect to group audits (see paragraph 9 of **Agenda Item 3-B**); and
- New guidance in paragraph A35 of ISA 250 under a separate heading to highlight potential communications in a group audit. This material links to extant ISA 600 but also addresses the additional responsibilities established by the IESBA NOCLAR pronouncement.

29. The Task Force considered whether it would be appropriate to add the above application material in ISA 600, but concluded that there are other matters relating to ISA 600 that some believe also require immediate attention, and that making small tweaks to ISA 600 in advance of a more fulsome revision in relation to the communication requirements within ISA 600 could be difficult.

30. The Group Audits Working Group will give further attention to how to give more prominence in ISA 600 to the communication of NOCLAR between the group engagement team and the auditors of components, and the communication with management and

those charged with governance, when developing the standard-setting project proposal later in 2016.

Matter for IAASB Consideration

4. Does the IAASB agree with the proposed revisions to ISA 250 to address the communication of NOCLAR in the circumstances of group audits, and does the IAASB agree that revisions to ISA 600 at this time should not be made?

D. Firm Policies and Procedures for the Communication of NOCLAR

IAASB and Respondent's Comments

31. An IAASB member indicated the importance of establishing policies and procedures at a firm level to address the reporting of NOCLAR noting that, in jurisdictions where reporting of NOCLAR to appropriate authorities is already well-established, the firms have implemented firm-level procedures to ensure consistency in reporting of NOCLAR within the firm, to protect the firms' reputational risk and to ensure the firm is not exposed to potential litigation, for example where the auditor inappropriately reports a matter to an appropriate authority.
32. IOSCO also believed that ISQC 1⁷ should establish requirements for firms to implement internal policies and procedures to address the response to NOCLAR when it is encountered.

Task Force Recommendations

33. The Task Force agrees that the establishment of appropriate policies and procedures to address the response to NOCLAR is important, recognizing that paragraph 20 of ISQC 1 already contains a general requirement for firms to establish policies and procedures with regards to compliance with relevant ethical requirements. However, the Task Force believes that such a revision is beyond the scope of this project, and will highlight the matter to the Quality Control Working Group, who are currently undertaking a project relating to the possible revision of ISQC 1 and could include this matter in the project proposal to be considered by the IAASB later in 2016.

Matter for IAASB Consideration

5. Does the IAASB agree that paragraph 20 of ISQC 1, although broad, is sufficient to address the firm's consideration of establishing policies and procedures regarding the reporting of NOCLAR, until such time as ISQC 1 is more holistically revised?

Response to Other Comments Raised at the March 2016 IAASB Meeting

E. Implications of Identified or Suspected Non-Compliance for the Auditor's Report

⁷ ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

IAASB Comments

34. There was concern raised by the IAASB that paragraph A18b, which refers to the communication of key audit matters (KAMs, could be misinterpreted as implying that the NOCLAR should always be communicated as a KAM in the auditor's report. Some members expressed concern that, even if the matter was determined to be a KAM, the auditor may conclude in accordance with paragraph 14 of ISA 701 that the matter should not be discussed in the auditor's report (for example, if the auditor concludes that the benefits of discussing NOCLAR in the auditor's report would be outweighed by negative consequences, particularly where it has been appropriately dealt with).
35. It was also noted that the inclusion of a reference to KAM in ISA 250 may set a precedent in the ISAs as to when emphasis is added to the communication of KAMs, which could inappropriately suggest that certain matters would always be considered to be KAMs, rather than allowing for the auditor to exercise judgment as envisaged by ISA 701.

Task Force Recommendations

36. The Auditor Reporting Implementation Working Group Co-Chair was also consulted on the revisions in respect of paragraph A26 and A27 (previously paragraph A18a–A18b), who noted that the application material did not indicate that, when the auditor modifies the opinion on the financial statements, law or regulation may have implications for the auditor's ability to describe the basis for modification.
37. The Task Force has proposed amendments to better clarify the possible implications of NOCLAR for the auditor's report. Furthermore, the amendments more generally address the possibility that law or regulation may preclude the communication of NOCLAR in the auditor's report in the basis for modified opinion, KAMs, other matter paragraphs etc., or the auditor's ability to issue the auditor's report. (See paragraph A26 and A27 of **Agenda Item 3-B.**)

Matter for IAASB Consideration

6. Do the proposed changes to paragraph A26 and A27 of ISA 250 suitably address the communication of NOCLAR in the auditor's report, without inappropriately implying that NOCLAR would be communicated in all circumstances, or would always need to be a key audit matter?

F. NOCLAR and the Successor Auditor

IAASB Comments

38. Several comments were raised by the IAASB on the IESBA's proposals with respect to communication between the predecessor and successor auditor. IESBA subsequently amended the drafting of these requirements, which are contained in Section 225.31 of the IESBA NOCLAR pronouncement. The IAASB recommended evaluating the consistency of

the drafting between paragraph A8a of ISA 220⁸ and the IESBA NOCLAR pronouncement.

39. KPMG had also recommended in their response to the ED that additional considerations in paragraph 6(c) of ISA 510⁹ should be included to broaden the focus of the auditor beyond the consideration of opening balances.

Task Force Recommendations

40. The Task Force has proposed amendments to paragraph A8a of ISA 220 to better align with the IESBA NOCLAR pronouncement.
41. The Task Force did not believe that additional requirements in ISA 510 regarding the communication between the predecessor and successor auditor are necessary, but agreed that there is a more general link between the information that comes to the auditor's attention as part of the client acceptance procedures and the auditor's risk assessment, including the risk of material misstatement of the opening balances. Accordingly, the Task Force recommended that this be a matter for consideration by the Quality Control Working Group in its deliberations on the revisions to ISQC 1 and ISA 220.

Matter for IAASB Consideration

7. Does the IAASB agree with proposed changes to paragraph A8a of ISA 220 addressing the communication between the predecessor and successor auditor?

G. Other Changes and Matters Considered by the Task Force

42. Further changes were also made to address concerns in respect of the way in which tipping off provisions were characterized in ISA 250 and the conforming amendments (for example, see paragraphs 20 and 23 of **Agenda Item 3-B**).
43. The Task Force determined that additional application material addressing the differences between the IESBA NOCLAR pronouncement and ISA 250 relating to the identification of NOCLAR is not necessary, as this is sufficiently clear in paragraph 15 and the related application material.
44. The Task Force has proposed various changes to address editorial comments received from the IAASB at the March 2016 meeting, and through written comments from members. These include:
 - a) Consistent reference to responsibility, requirement or duty to report non-compliance throughout ISA 250 and the conforming amendments. However, it is noted that the term “responsibility” has been retained in certain parts of ISA 250 and the conforming amendments, for example paragraph 9 of ISA 250, to reflect the general response to NOCLAR contained in law, regulation or relevant ethical requirements.

⁸ ISA 220, *Quality Control for an Audit of Financial Statement*

⁹ ISA 510, *Initial Audit Engagements—Opening Balances*

- b) Clarity of paragraph A6 setting out the examples of laws and regulations within the scope of ISA 250.
 - c) Various editorial changes to paragraph A20 and A21, including separating this paragraph into two paragraphs in order to simplify and clarify the meaning of the paragraph, and to facilitate the application of the guidance to the various requirements in ISA 250.
 - d) Consideration of the references to “management” and “those charged with governance” to ensure these are used consistently throughout ISA 250 and the conforming amendments.
 - e) Consideration of the consistent use of “identified or suspected non-compliance with laws and regulations” and similar references.
 - f) Clarifying paragraph A25 dealing with withdrawal from the engagement to indicate that withdrawal may be appropriate “in certain circumstances” and to clarify the intended meaning of “even when the non-compliance is not material to the financial statements” by replacing this with “or the non-compliance raises questions regarding the integrity of management”.
 - g) Updating paragraph A33a of ISA 500¹⁰ to more broadly indicate that ISA 250 provides guidance on evaluating the implications of non-compliance in relation to other aspects of the audit.
 - h) Including additional application material in ISRE 2400 (Revised)¹¹ similar to paragraph A21 of ISA 250 with respect to communication with management and those charged with governance.
45. It is noted that certain application material in paragraphs A28–A33 of ISA 250 was not included in full in ISRE 2400 and ISAE 3000, in order to preserve the conciseness of these standards.

Matter for IAASB Consideration

8. Does the IAASB agree with the other changes to ISA 250 and the conforming amendments?

Comments from Respondents that Have Not Previously Been Brought to the Attention of the IAASB

H. Documentation Requirements

Respondent’s Comments

46. Both IOSCO and KPMG recommended that ISA 250 reflect the additional documentation requirements contained in the IESBA NOCLAR pronouncement.

¹⁰ ISA 500, *Audit Evidence*

¹¹ ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*

Task Force Recommendations

47. Other respondents¹² to the ED also believed that the documentation requirements of ISA 250 should be aligned to the documentation requirements set out in the IESBA NOCLAR proposals, which include a requirement to document how the professional accountant is satisfied that they have fulfilled the responsibility to act in the public interest.
48. At the March 2016 IAASB meeting, the Task Force proposed the inclusion of application material to draw attention to the potential additional documentation requirements contained in the relevant ethical requirements.
49. Since the March 2016 meeting, the IESBA concluded that the documentation requirements in the IESBA NOCLAR pronouncement should apply to all instances of NOCLAR within the scope of the pronouncement. Previously, the documentation requirements only applied to instances of significant non-compliance.
50. Accordingly, the Task Force believes that enhancements to the documentation requirements are necessary, and that these should emphasize the documentation requirements in paragraph 8 and 10 of ISA 230.¹³ Furthermore, the expansion of the documentation of the discussions to include “others” correlates with other revisions to ISA 250 in respect of the auditor consulting with others regarding NOCLAR.

Matter for IAASB Consideration

9. Does the IAASB agree with enhancing the documentation requirements, and aligning them to ISA 230?

Due Process Matters

51. The IESBA unanimously approved the final changes to the IESBA Code addressing NOCLAR at its April 2016 teleconference, having considered the due process followed ([Agenda Item 1A](#)). The IESBA project was subject to extensive consultation with stakeholders over 6.5 years, including issuance of two exposure drafts, the holding of three global roundtables, discussion with the IESBA Consultative Advisory Group (CAG) on 12 separate occasions, and numerous consultations with and outreach to the international and national regulatory communities, national standards setters, firms, IFAC member bodies, the IFAC Small and Medium Practices and Professional Accountants in Business Committees, and the investor, preparer and governance communities. The IAASB was kept apprised of developments on the IESBA's NOCLAR project through updates and discussions at IAASB meetings over the life of the IESBA's NOCLAR project.

¹² *Regulators and Oversight Bodies: IRBA; National Auditing Standard Setters: NZAuASB; Accounting Firms: PWC; Member Bodies and Other Professional Organizations: KICPA, SAICA*

¹³ *ISA 230, Audit Documentation*

Significant Matters Identified by the NOCLAR Task Force

52. In the Task Force's view, the significant matters it has identified as a result of its deliberations since the beginning of this project, and its considerations therein, have all been reflected in the issues papers presented to the IAASB at its meetings. The Task Force does not believe that there are significant matters it has discussed in this project that have not been brought to the IAASB's attention.

Consideration of the Need for Further Consultation

53. The IAASB's project was limited to addressing actual or perceived inconsistencies of the approach to identifying and dealing with instances of NOCLAR or suspected NOCLAR in complying with ISA 250 and other International Standards, including the scope of laws and regulations to be considered, when the IESBA Code also applies. As noted in paragraph 51, the IESBA had extensive public consultations on the fundamental issues related to the topic of NOCLAR.
54. The IAASB's NOCLAR project has been discussed with the IAASB on 6 occasions, and with the IAASB CAG on 3 occasions, and the chairs of the IAASB and IESBA NOCLAR Task Forces participated in both of the Board's Task Forces.
55. Accordingly, the Task Force does not believe that field testing of the proposals, or a roundtable, are warranted, given the limited nature of the IAASB's project.

Consideration of the Need for Re-Exposure

56. To facilitate the IAASB's consideration of the need for re-exposure, Agenda Item 3-D shows the marked changes from the ED.
57. Many respondents¹⁴ to the IAASB's ED expressed concern that the IAASB may not take into account changes to the International Standards that may be required in respect of any fundamental changes to the IESBA NOCLAR proposals, and that respondents would not be given an opportunity to comment on such necessary changes. The IESBA due process considerations stated "...the Task Force believes that the changes to the text post-exposure are in response to feedback from respondents to the re-ED and do not fundamentally or substantively change the proposals in the re-ED". The IAASB had the opportunity to consider these changes on two separate occasions and interact directly with the IESBA Task Force Chair to understand the rationale for them.
58. Consistent with the conclusion on the IESBA NOCLAR proposals, the IAASB Task Force is of the view that there have been no fundamental changes to ISA 250 and the related conforming amendments since the ED. The Task Force also notes the objective of the project was to address actual or perceived inconsistencies between the International Standards and the IESBA Code with respect to NOCLAR, and that additional material that

¹⁴ *Regulators and Oversight Bodies:* IFIAR, IRBA; *National Auditing Standard Setters:* CNCC; *Accounting Firms:* BDO, MAZARS; *Member Bodies and Other Professional Organizations:* CAI, CPAA, FEE, IBR-IRE, ICAS, SAICA, SMPC

has been developed since the ED is intended to achieve this objective. As such, the Task Force does not believe that re-exposure is needed.

Matter for IAASB Consideration

10. Does the IAASB agree that re-exposure of the changes to ISA 250 and the related conforming amendments is not necessary?

Effective Date

59. At its April 2016 teleconference, the IAASB provisionally agreed that the revisions to the IAASB's International Standards should become effective for audits of financial statements periods beginning on or after December 15, 2017. The Task Force continues to believe this effective date would be appropriate.