

Non-Compliance with Laws and Regulations (NOCLAR)

Brendan Murtagh, Task Force Chair

New York, USA

June 21, 2016

Issues and Task Force Recommendations

C – Comment

TF – Task Force recommendation

B – Question for the Board

Responsibility to Report NOCLAR to an Appropriate Authority

C

- Further refinement on the auditor's responsibility to report NOCLAR necessary that reflects possible obligation to report, a right to report or requirement to determine whether to report
- Application material requires reorganization
- Concern with specific reference to IESBA Code

TF

- Difficult to explain all circumstances succinctly; requirement needs to be more general i.e. a requirement to report or is otherwise appropriate, supported by clear application material setting out different scenarios (para A28). Also link consideration to law, reg or RER (“in accordance with”)

**ISA 250
Paragraphs
29, A28 – A34**

Responsibility to Report NOCLAR to an Appropriate Authority

TF

- Direct reference to IESBA Code appropriate to achieve the objective of the project
- Re-organization of application material
- Other editorial changes

B

Question 1: Are requirements now clear and address all circumstances?

Definition of Non-Compliance

C

- Necessity of explaining what is “not” non-compliance
- “Transactions entered into by....” – appropriateness of relocating to application material
- What is personal misconduct related to the business activities?

**ISA 250
Paragraphs
12, A8 – A10**

TF

- Relocate what is “not” non-compliance to application material
 - IESBA “splits” explaining what is NOCLAR versus what is “not” NOCLAR – in 2 paragraphs
 - Generally, ISAs do not explain what something is “not” in definitions
- Retain “transactions” in application material
 - History of intention of IESBA “definition” – trying to achieve consistency with ISAs, transactions not included because seen as an example

Definition of Non-Compliance

TF

- Added example of personal misconduct related to the business



B

Question 2: Is relocation of material to application material appropriate?

Question 3: Does example provide clarity?

Group Audits

C

- Concern that changes needed to address group audits will come too late if delay for GA project
 - Suggestion to include temporary requirements in ISA 250
- Communication of fraud / NOCLAR at components to group management (IOSCO)

**ISA 250
Paragraphs 9
and A35**

TF

- ISA 600 already addresses communication of NOCLAR that is material to FS by component auditor
- Not appropriate to include full requirements
 - ISAs not meant to be comprehensive in relation to IESBA NOCLAR proposals
 - Extends to others who don't follow IESBA Code

However.....

Group Audits

TF

- Changes to draw attention to NOCLAR relating to group audits and requirements in ISA 600 (new para and small emphasis in introduction)
- Other aspects of ISA 600 which also need fixing but have not been done



B

Question 4: Agree that sufficient emphasis raised and revisions to ISA 600 should not be made?

Documentation

C

- Better alignment with documentation requirements in IESBA Code (IOSCO / KPMG and others)

**ISA 250
Paragraphs
30, A36 and
A37**

TF

- Since March 2016, IESBA extended documentation requirements
- Align more with IESBA and ISA 230

B

Question 9: Agree with enhancing documentation requirements and more closely aligning to ISA 230?

NOCLAR and Quality Control

C



TF



B

- Firm policies & procedures necessary to address reporting of NOCLAR (incl. IOSCO)

- Agree that firm policies & procedures needed
- Beyond scope of this project – address under QC project

Question 5: Paragraph 20 of ISQC 1 sufficient until such time as ISQC 1 is reviewed?

NOCLAR and the Auditor's Report

**ISA 250
Paragraphs
A26 and A27**

C

- Inappropriately implying that all NOCLAR should be communicated as KAM
- Referring to KAMs may set precedent for other ISAs



TF

- Explain clearly scenarios where NOCLAR could be in the auditor's report
- Explain that there may be:
 - Inability to describe the matter in the auditor's report
 - Inability to be able to issue auditor's report



B

Question 6: Are changes suitable? Agree that they do not imply always required to have something in the auditor's report?

Other Matters

Communication between successor and predecessor auditor – aligned to IESBA Code (ISA 220 paragraph A8a)

Tipping off provisions clarified further

Editorial changes:

- Consistent terminology
- Clarified application material – communication with management and TCWG
- Clarified withdrawal provisions

Due Process and Effective Date

- IESBA – Extensive consultation over 6.5 years, IAASB kept apprised of developments
- Significant matters identified by TF – all has been presented to IAASB
- No further consultation necessary – adequate IAASB and CAG interactions
- No need for re-exposure
 - Comments on timing of IAASB ED and impact of IESBA changes post IESBA ED – IESBA confirmed in their due process no fundamental changes
 - No fundamental changes to International Standards
 - Meeting with IOSCO in June 2016 to discuss proposals to IAASB

Due Process and Effective Date

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

Effective Date

- Periods beginning on or after December 15, 2017

IAASB

www.iaasb.org
