



# Grant Thornton

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## Responding to Non-Compliance with Laws and Regulations

To the members of the International Ethics Standards Board for Accountants:

Grant Thornton International Ltd. (Grant Thornton) appreciates the opportunity to comment on the May 2015, Exposure Draft (ED): Responding to Non-Compliance with Laws and Regulations, approved for publication by the International Ethics Standards Board for Accountants (the IESBA or the Board).

Grant Thornton is a non-practicing, non-trading international umbrella organization and does not deliver services in its own name. Representative Grant Thornton member firms have contributed to and collaborated on this comment letter with the public interest as their overriding concern.

We support the Board's proposals and believe they will enable IFAC in its mission to serve the public interest and allow the Board to achieve its objective of strengthening the IESBA Code (the Code) by continuing to set high quality standards that will enhance the profession.

### **Request for Specific Comment**

1. *Where law or regulation requires the reporting of identified or suspected NOCLAR to an appropriate authority, do respondents believe the guidance in the proposals would support the implementation and application of the legal or regulatory requirement?*

Grant Thornton believes the guidance in the proposals would support the implementation and application of the legal or regulatory requirements when identified or suspected NOCLAR is required to be reported to an appropriate authority. We believe the guidance in the proposals will enhance compliance with such laws and regulations and help achieve the Board's objective to "stimulate a greater incidence of actual reporting". Furthermore, Grant Thornton believes the guidance will allow professional accountants to comply with laws and regulations that have an appropriate framework and structure for reporting non-compliance, without forcing them to breach their duty of confidentiality under the Code.

2. *Where there is no legal or regulatory requirement to report identified or suspected NOCLAR to an appropriate authority, do respondents believe the proposals would be helpful in guiding PAs in fulfilling their responsibility to act in the public interest in the circumstances?*

We believe the proposals would be helpful in guiding professional accountants in fulfilling their responsibility to act in the public interest when there is no legal or regulatory requirement to report identified or suspected NOCLAR. The proposals provide professional accountants with a balanced framework for addressing these matters.

3. *The Board invites comments from preparers (including TCWG), users of financial statements (including regulators and investors) and other respondents on the practical aspects of the proposals, particularly their impact on the relationships between:*

- (a) Auditors and audited entities*
- (b) Other PAs in public practice and their clients; and*
- (c) PAIBs and their employing organizations*

We do not believe the proposals will have any significant impacts on the relationships discussed above. On the contrary, we believe they will clarify the responsibility of each party (auditors, client management, TCWG, and PAs) in relation with identified or suspected NOCLAR.

#### *Specific Matters*

4. *Do respondents agree with the proposed objectives for all PAs?*

Grant Thornton agrees with the proposed objectives for all professional accountants as we believe the objectives will allow professional accountants to comply with the fundamental principles of integrity and professional behaviour when responding to matters of non-compliance or suspected non-compliance.

5. *Do respondents agree with the scope of laws and regulations covered by the proposed Sections 225 and 360?*

Grant Thornton agrees with the scope of laws and regulations covered by the proposed Sections 225 and 360. However, we would like the Board to consider adding *employment and labour laws* to the lists contained in Sections 225 and 360. Non-compliance with employment and labour laws can result in significant fines, litigation or other consequences for the client, which could have a material impact on the client's financial statements. Furthermore, non-compliance with employment and labour laws could have wider public interest implications.

6. *Do respondents agree with the differential approach among the four categories of PAs regarding responding to identified or suspected NOCLAR?*

We agree with the differential approach among the four categories of professional accountants regarding responding to identified or suspected NOCLAR because we believe it recognizes the different capacities and responsibilities of professional accountants and scales their responsibilities accordingly. We believe the proposed framework will strengthen the Code because the framework contains balanced guidance for responding to instances of NOCLAR and suspected NOCLAR.

With respect to proposed Section 225.40, we believe the Board's proposal would be strengthened by requiring professional accountants performing non-audit services for an audit client of a network firm to communicate the matter to the network firm except where prohibited by law. If a professional accountant performing non-audit services for an audit client of a network firm is aware of NOCLAR or suspected NOCLAR but does not communicate the matter to the network firm, then the auditor is conducting an audit with incomplete information with the consequent potential to impair audit quality. Furthermore, another consequent of not disclosing the matter is the engagement partner may not be able to comply with applicable laws, regulations and professional obligations, an outcome that ultimately does not serve the public interest.

Furthermore, we recommend the Board clarify Section 225.40 to ensure readers understand that this section is talking about a professional accountant performing a non-audit service for an audit client within their own network.

7. *With respect to auditors and senior PAIBs:*

(a) *Do respondents agree with the factors to consider in determining the need for, and the nature and extent of, further action, including the threshold of credible evidence of substantial harm as one of those factors?*

Yes, we agree with the factors to consider in determining the need for, and the nature and extent of, further action, including the threshold of credible evidence of substantial harm as one of these factors. The Board has provided balanced consideration in the proposals for determining whether further action is needed.

(b) *Do respondents agree with the imposition of the third party test relative to the determination of the need for, and nature and extent of, further action?*

Grant Thornton agrees with the imposition of the third party test relative to the determination of the need for, and nature and extent of, further action and believes the proposals will support the Board's objectives to stimulate a greater incidence of actual reporting and assist professional accountants in fulfilling their responsibility to act in the public interest in the circumstances.

*(c) Do respondents agree with the examples of possible courses of further action? Are there other possible courses of action respondents believe should be specified?*

Grant Thornton agrees with the examples of possible courses of further action in the proposals. We are not aware of any other courses of action that should be specified.

*(d) Do respondents support the list of factors to consider in determining whether to disclose the matter to an appropriate authority?*

Grant Thornton supports the list of factors to consider in determining whether to disclose the matter to an appropriate authority.

8. *For PAs in public practice providing services other than audits, do respondents agree with the proposed level of obligation with respect to communicating the matter to a network firm where the client is also an audit client of the network firm?*

Grant Thornton does not agree with the proposed level of obligation with respect to communicating the matter to a network firm where the client is also an audit client of the network firm (see our response to Question 6).

9. *Do respondents agree with the approach to documentation with respect to the four categories of PAs?*

We agree with the approach to documentation with respect to the four categories of professional accountants.

Grant Thornton would like to thank the IESBA for this opportunity to comment. As always we welcome an opportunity to meet with representatives of the IESBA to discuss these matters further. My contact information is below.

Sincerely,



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