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Mr Ken Siong  
Technical Director  
International Ethics Standards Board for Accountants  
529 Fifth Avenue  
New York, NY 10017

4 September 2015

**Exposure Draft : Responding to Non-Compliance with Laws and Regulations**

Dear Mr Siong,

On behalf of RSM International Limited, a global network of independent accounting and consulting firms, we are pleased to have the opportunity to respond to your Exposure Draft : Responding to Non-Compliance with Laws and Regulations (NOCLAR).

We support these proposals and are pleased that many of the more onerous proposals in the 2012 Exposure Draft have been amended in acknowledgement of a more balanced view of what is in the public interest and the consequences of mandating certain responses to NOCLAR. We believe that the combination of a practical threshold for further action, the requirement to address the matter with management or Those Charged With Governance (TCWG) and the consideration of a number of factors to determine whether further action is needed will enhance the public interest and in most cases these proposals codify good practice in the profession.

**Questions for Respondents**

**1. Where law or regulation requires the reporting of identified or suspected non-compliance with laws and regulations (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?**

Yes, the guidance explains the key steps and assessments in sufficient detail.

**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 professional accountants (PAs) in fulfilling their responsibility to act in the public interest in the circumstances?**



Yes, the guidance to determine what is in the public interest and what constitutes substantial harm is clear. This guidance will help Public Accountants to fulfil their responsibilities.

**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) PAs in business and their employing organizations.**

Requiring disclosure of identified or suspected NOCLAR to an appropriate authority in the relevant circumstances could have significantly changed the relationship between auditor and client had the original ED proposals been followed. In our view the public interest would not have been served because of the risk of the client reducing the amount of information disclosed to the auditor, which in turn would have had an adverse impact on audit quality and on the auditor's ability to advise the client on compliance with laws and regulations. We support the stance taken by the Board to require disclosure of NOCLAR when required by laws and regulations and providing good guidance for other circumstances.

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

Yes.

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

Yes in general, however we recommend adding an exemption from the reporting requirement for forensic investigation types of services. These services are commonly provided in situations where a client is concerned that there may be an issue. We do not believe it is in the public interest for the client to engage less qualified investigators who are not obliged to report the NOCLAR.

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

Yes.

**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. The term "substantial harm" is a subjective measure that will potentially result in inconsistencies in outcomes. However, we agree that a threshold is necessary and agree with the threshold being set at this level of harm or injury for the reasons given in the Explanatory Memorandum.

**(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?**

Yes. As above, the use of a third party test is a subjective assessment that will result in inconsistencies in outcomes. However, we agree that the PA should take into account whether a reasonable and informed third party, who is not necessarily a legal specialist, would be likely to conclude that the PA has acted in the public interest.

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

Yes. We do not believe there to be other possible courses of further 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?**

Yes.

**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?**

Yes. As noted in the Explanatory Memorandum the legal and other complexities involved with cross border working make it impractical for the Board to mandate communication of this nature. However, we believe that where substantial harm could be done due to the NOCLAR the PA should be encouraged by the Board to communicate the matter to the network firm, just as documentation is encouraged in certain situations.

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

Yes.

We would be pleased to discuss our comments further with members of the IESBA or its staff. If you wish to do so, please contact Robert Dohrer (tel: +44 207 601 1080; email: robert.dohrer@rsmi.com).

Yours sincerely



**Robert Dohrer**  
**Global Leader - Quality and Risk**  
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