

AT A GLANCE

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Non-Compliance with Laws and Regulations

An Overview of International Standard on Auditing (ISA) 250 (Revised), Consideration of Laws and Regulations in an Audit of Financial Statements

Non-Compliance with Laws and Regulations

This summary provides an overview of revisions to the IAASB's International Standards¹ related to non-compliance with laws and regulations (NOCLAR).

Project Objective:

The International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the IESBA Code) has been revised to address the professional accountant's responsibility in relation to NOCLAR and becomes effective on July 15, 2017. The objective of the IAASB's project to address NOCLAR was to:

- Identify any actual or perceived inconsistencies of approach or scope between the NOCLAR provisions in the revised IESBA Code and the International Standards, in particular ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*.
- Develop amendments to the IAASB's International Standards to address such inconsistencies to the extent considered appropriate to enable the IAASB's International Standards to continue to be applied effectively together with the IESBA Code, or to clarify and emphasize key aspects of the revised IESBA Code in the IAASB's International Standards.

Effective Date:

Audits of financial statements for periods beginning on or after December 15, 2017; similar date for standards for other services.

For More Information:

Visit the IAASB's website at: <http://www.iaasb.org/projects/noclar>.

¹ The IAASB's International Standards comprise the International Standards on Auditing (or ISA), the International Standards on Review Engagements (or ISRE), the International Standards on Assurance Engagements (or ISAE), and the International Standards on Related Services (or ISRS).

What changes were made to ISA 250 (Revised)?

The IAASB made limited amendments to ISA 250 (Revised) in order to address actual or perceived inconsistencies of the approach to identifying and dealing with instances of identified or suspected NOCLAR.

The IAASB has made limited amendments to ISA 250 (Revised), as the intention is not to duplicate all the specific requirements of the revised IESBA Code, in order to allow for flexibility when ethical codes other than the IESBA Code are applied. These limited amendments are intended to:

- Align aspects of ISA 250 (Revised) to the revised IESBA Code, particularly the definition of non-compliance and the examples of laws and regulations within the scope of ISA 250 (Revised).
- Clarify the requirement regarding the auditor's determination of whether to report identified or suspected NOCLAR to an appropriate authority outside the entity and the auditor's duty of confidentiality, in order to recognize the different provisions of laws, regulations, or relevant ethical requirements.
- Highlight that the auditor may have additional responsibilities under law, regulation or relevant ethical requirements, including possible documentation requirements and communicating to other auditors.
- Enhance the consideration of the implications of NOCLAR on the audit, for example, the reliability of management's representations, the implications for the auditor's report, and the consideration of whether to withdraw from the engagement.

- Emphasize the fact that, in certain cases, communication with management or those charged with governance may be restricted or prohibited by law or regulation, for example tipping-off provisions that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act.

The revised IESBA Code sets out a framework for professional accountants to respond to identified or suspected NOCLAR, and includes considerations and actions such as:

- Specific communications with management and those charged with governance, assessing the appropriateness of their response to non-compliance and determining whether further action is needed.
- Communicating identified or suspected non-compliance with laws and regulations to other auditors (e.g., in an audit of group financial statements).
- Determining whether further action is needed, which may include reporting to an appropriate authority outside the entity.
- Documenting in accordance with the requirements of the revised IESBA Code.

How is an auditor expected to address NOCLAR?

ISA 250 (Revised) sets out specific expectations for auditors in relation to NOCLAR. In addition, relevant ethical requirements, such as the IESBA Code, may set out additional or more specific requirements for professional accountants.

ISA 250 (Revised) differentiates between two types of laws and regulations as follows:

- (a) Laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements; and
- (b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operating aspects of the business, to an entity's ability to continue its business, or to avoid material penalties; non-compliance with such laws and regulations may therefore have a material effect on the financial statements.

For category (a), the auditor is required to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations. For category (b), the auditor's responsibility is limited to undertaking specified audit procedures to help identify non-compliance with those laws and regulations.

ISA 250 (Revised) explains the audit procedures that are required to be performed when NOCLAR is identified or suspected, which include:

- Obtaining an understanding of the nature of the act and the circumstances in which it has occurred and further information to evaluate the possible effect on the financial statements;

- Discussing the matter with management and those charged with governance and obtaining legal advice in certain circumstances;
- Evaluating the implications of NOCLAR in relation to other aspects of the audit;
- Evaluating the impact of NOCLAR on the audit opinion; and
- Determining whether to report NOCLAR to an appropriate authority outside the entity.

The work effort in ISA 250 (Revised) has not been amended. However, the revised standard now specifically highlights possible scenarios that may exist under law, regulation or relevant ethical requirements in relation to reporting to an appropriate authority, and addresses the confidentiality considerations.

Engagements Other than Audits of Financial Statements

Efforts in relation to NOCLAR are specific to the circumstances of the engagement. The changes to the IAASB's International Standards in respect of other engagements other than audits focus on highlighting what may be expected of the professional accountant under law, regulation or relevant ethical requirements when NOCLAR is identified or suspected.

Which other IAASB International Standards are affected by the changes?

While minor conforming amendments were made to a number of the IAASB's International Standards, the more pertinent amendments to the IAASB's International Standards were as follows:

<p>ISA 210 <i>Agreeing the Terms of Audit Engagements</i></p>	<p>Additional application material to emphasize that the auditor should consider including in the audit engagement letter the auditor's responsibilities under law, regulation or relevant ethical requirements regarding reporting of NOCLAR to an appropriate authority</p>	<p>ISAE 3000 (Revised) <i>Assurance Engagements Other than Audits or Reviews of Historical Financial Information</i></p> <p>and</p> <p>ISRS 4410 (Revised) <i>Compilation Engagements</i></p>	<p>Amendments to be consistent with those made to ISA 250 (Revised), in particular to address the additional responsibilities under law, regulation or relevant ethical requirements, the communication with management and those charged with governance and reporting NOCLAR to an appropriate authority outside the entity. Amendments also made to address the practitioner's expected level of understanding of laws and regulations beyond the scope of the standard</p>
<p>ISA 240 <i>The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements</i></p>	<p>Amendments to be consistent with those made to ISA 250 (Revised), in particular to address the additional responsibilities under law, regulation or relevant ethical requirements, the communication with management and those charged with governance, and reporting fraud to an appropriate authority outside the entity</p>	<p>ISRE 2400 (Revised) <i>Engagements to Review Historical Financial Statements</i></p>	<p>Amendments to be consistent with those made to ISA 250 (Revised), in particular to address the additional responsibilities under law, regulation or relevant ethical requirements, the communication with management and those charged with governance and reporting NOCLAR to an appropriate authority outside the entity</p>
<p>ISA 220 <i>Quality Control for an Audit of Financial Statements</i></p>	<p>New application material to explain the communication between a predecessor and successor auditor, including with respect to NOCLAR, linking it to the provisions in the IESBA Code</p>	<p>ISAE 3402 <i>Assurance Reports on Controls at a Service Organization</i></p>	<p>New application material to highlight that the auditor may communicate with third parties when NOCLAR is identified</p>

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