Non-Compliance with Laws and Regulations

Brendan Murtagh, IAASB Member

New York, USA
June 17, 2015
Agenda Item 2

Outline

• Introduction & Project History
• Project Proposal
• Draft Exposure Draft:
  – ISA 250
  – Other International Standards
• Way Forward
December 2014, March 2015 – updates on IESBA NOCLAR project and discussion of implications for IAASB
  – IAASB Working Group established
April 2015 – IESBA approved a re-exposure draft
April/May 2015 – IAASB Working Group meetings and teleconferences
  – Steering Committee consideration of Project Proposal
June 2015 – CAG Teleconference

Introduction and Project History

• Working Group:
  – Brendan Murtagh
  – Jean Blascos, IAASB Member
  – Marek Grabowski, IAASB Member
  – Chuck Landes, IAASB Deputy Chair (supported by Hiram Hasty)
(Richard Fleck, IESBA Member and member of the IESBA NOCLAR Task Force, is an observer)
Project Proposal

• Project Objectives:
  – Identify any actual or perceived inconsistencies of approach or scope between the IESBA NOCLAR ED and the International Standards,
  – Develop amendments to the International Standards to address such inconsistencies to the extent considered appropriate to enable the International Standards to continue to be applied effectively with the IESBA Code or to clarify and emphasize key aspects of the proposed revised IESBA Code in the International Standards; and
  – Make other recommendations, as appropriate

Project Proposal

• Expedited approach necessary and appropriate:
  – Project follows IAASB’s due process and working procedures as per normal
  – Importance of providing stakeholders with an opportunity to consider the proposed amendments to the International Standards and the IESBA’s NOCLAR proposals side by side
  – Limited nature and scope of the anticipated amendments to the International Standards
  – “Close off” document approach
• **SMPC**
  - Supportive of limited amendments approach
  - Expressed concerns with any proposal to fully align
  - Concern over balance between “relevant ethical requirements” and the IESBA Code as the IESBA Code becomes more stringent

• **Consultative Advisory Group**
  - General support for the project
  - Noted that ISAs have to be able to be used independently from the IESBA Code
  - Timing of the project?
  - Concern over the use of the term “right”
Project Proposal

Project Proposal: Comments and Approval

Draft Exposure Draft

• Working Group’s approach:
  – Category 1 – Amendments to address actual or perceived inconsistencies of approach or scope or to clarify and emphasize key aspects of the NOCLAR proposals
  – Category 2 – Additional guidance material that might be considered helpful if added to ISA 250, or other International Standards, but is not considered to be of sufficient importance to warrant their inclusion in the ED as proposed amendments
  – Category 3 – Areas for further consideration in a possible future revision of ISA 250
• “Signpost” provisions:
  – Purpose: to bring key aspects of the IESBA’s NOCLAR proposals to the auditor’s attention
  – ISA 250, paragraph 8a
  – ISA 240, paragraph 8a

• Amendments to recognize and reflect the changes to the auditor’s duty of confidentiality:
  – ISA 250, paragraph A19
  – ISQC 1, paragraph A56
  – ISA 240, paragraphs 43 and A65
  – ISRE 2400 (Revised), paragraph A92
  – ISAE 3402, paragraph A53
Exposure Draft: Category 1

• New guidance to clarify the implications of the IESBA’s NOCLAR proposals for ISA 250 that the auditor may otherwise become aware of matters that the auditor is required to address under relevant ethical requirements, and which may have an effect on the audit
  – ISA 250, paragraphs A12a and A17

Exposure Draft: Category 1

• New guidance to highlight the requirement in the IESBA NOCLAR ED for the auditor to communicate, prior to accepting the engagement, with the predecessor auditor
  – ISA 220, paragraph A8a
Exposure Draft: Category 1

• New guidance to recognize law or regulation that may prohibit “tipping off” the entity
  – ISA 240, paragraph A65
  – ISA 250, paragraph A19
  – ISA 260 (Revised), paragraph 7
  – ISA 450, paragraph A8

Exposure Draft: Category 1

• Additional explanatory material to clarify application to International Standards
  – ISA 250, paragraph A1a: highlights that management and those charged with governance may have additional responsibilities
  – ISA 250, paragraph A7a: Includes examples of relevant laws and regulations drawn from the IESBA NOCLAR ED
  – ISA 250, paragraph A18a: Examples of circumstances that may cause the auditor to evaluate the reliability of written representations

• Minor changes for consistency: ISA 250, paragraph 5
Category 2

• Additional guidance material that might be considered helpful, but not of sufficient importance to warrant their inclusion in the ED:
  – Provide further information on matters already discussed by the ISAs (e.g. communication with those charged with governance, internal audit) but were seen to be at an unnecessary level of specificity
  – Items addressed adequately in the IESBA proposals, and duplication was not seen to be necessary

Exposure Draft

Does the Board agree with the exclusion of the Category 2 items from the Exposure Draft?

Other comments on the Exposure Draft
Category 3

• Areas for further consideration in a possible future revision of ISA 250.
  – See Agenda Item 2-F and paragraph 16 of Agenda Item 2-A
  – Outside the scope of the project proposal
  – However, seeking respondents’ perspectives on other areas for possible future revision of ISA 250 may be facilitated by highlighting these areas in the Explanatory Memorandum of the proposed ED

Category 3

Does the IAASB support inclusion of a question in the Explanatory Memorandum to seek views about areas within ISA 250 that may warrant further attention in a future IAASB work plan?