Non-Compliance with Laws and Regulations (NOCLAR)

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Issues and Task Force Recommendations

C – Comment
TF – Task Force recommendation
B – Question for the Board
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.

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”).
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

- 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?

- 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

ISA 250
Paragraphs 12, A8 – A10
Definition of Non-Compliance

• Added example of personal misconduct related to the business

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

Question 3: Does example provide clarity?
Group Audits

ISA 250
Paragraphs 9 and A35

C

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

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

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

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

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

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

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

TF

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

B

Question 5: Paragraph 20 of ISQC 1 sufficient until such time as ISQC 1 is reviewed?
NOCLAR and the Auditor’s Report

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

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