

Comparative Analysis: Proposed Section 225 of the IESBA Code¹ vs. the IAASB's International Standards

Comparative Analysis: Proposed Section 210 vs. ISA 250

Proposed Section 225	ISA 250	Staff Preliminary Comments
<p>Purpose</p> <p>225.1 In the course of providing a professional service to a client, a professional accountant in public practice may come across non-compliance or suspected non-compliance with laws and regulations. The purpose of this section is to guide the professional accountant in assessing the implications of such non-compliance and the possible courses of action in responding to it.</p>	<p>Scope of this ISA</p> <p>1. This International Standard on Auditing (ISA) deals with the auditor's responsibility to consider laws and regulations in an audit of financial statements. This ISA does not apply to other assurance engagements in which the auditor is specifically engaged to test and report separately on compliance with specific laws or regulations.</p>	<p>Differences in introduction reflect the different contexts and objectives of the Code and the ISAs.</p> <p>No change recommended.</p>
<p>225.3 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance with laws and regulations, the objectives of the professional accountant are:</p> <p>(a) To comply with the fundamental principles of integrity and professional behavior;</p>	<p>Objectives</p> <p>10. The objectives of the auditor are:</p> <p>(a) To obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements;</p>	<p>The different objectives serve the different purposes of the Code and the ISAs.</p> <p>No change recommended.</p>

¹ Code of Ethics for Professional Accountants

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<p>(b) Through alerting management or, where appropriate, those charged with governance of the client, to seek to:</p> <p>(i) Have them rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or</p> <p>(ii) Deter the commission of the non-compliance where it has not yet occurred; and</p> <p>(c) To take such further action as may be needed in the public interest.</p>	<p>(b) To perform specified audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements; and</p> <p>(c) To respond appropriately to non-compliance or suspected non-compliance with laws and regulations identified during the audit.</p>	
<p>225.4 What constitutes the public interest will depend on:</p> <p>(a) The facts and circumstances of the non-compliance or suspected non-compliance; and</p> <p>(b) The nature and extent of the consequences to investors, creditors, employees and the wider public.</p>	<p>–</p>	<p>Specific to Section 225.</p> <p>No change recommended.</p>
<p>Scope</p> <p>225.5 This section addresses:</p> <p>(a) Laws and regulations generally recognized to have a direct effect on the determination of material amounts and</p>	<p>6. This ISA distinguishes the auditor's responsibilities in relation to compliance with two different categories of laws and regulations as follows:</p> <p>(a) The provisions of those laws and regulations generally recognized to have a direct effect on the determination of</p>	<p>Same scope.</p> <p>Examples attached to ISA 250 categories of L&R are focused on audits of financial statements. The scope of the</p>

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<p>disclosures in the client's financial statements; and</p> <p>(b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the client's financial statements, but compliance with which may be fundamental to the operating aspects of the client's business, to its ability to continue its business, or to avoid material penalties.</p>	<p>material amounts and disclosures in the financial statements such as tax and pension laws and regulations (see paragraph 13); and</p> <p>(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 (for example, compliance with the terms of an operating license, compliance with regulatory solvency requirements, or compliance with environmental regulations); non-compliance with such laws and regulations may therefore have a material effect on the financial statements (see paragraph 14).</p>	<p>Code is broader than audits of financial statements.</p> <p>No change recommended.</p>
<p>225.6 Examples of laws and regulations which this section addresses include:</p> <ul style="list-style-type: none"> • Laws addressing fraud, corruption and bribery. • Laws against money laundering and terrorist financing, and those addressing proceeds of crime. • Securities laws and regulations. 	<p>See examples attached to ISA 250.6(a) and (b) above.</p> <p>A8. Certain laws and regulations are well-established, known to the entity and within the entity's industry or sector, and relevant to the entity's financial statements (as described in paragraph 6(a)). They could include those that relate to, for example:</p>	<p>Examples of laws and regulations in paragraph 225.6 are broader consistent with the broader scope of the Code.</p> <p>No change recommended.</p>

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<ul style="list-style-type: none"> • Banking and prudential laws and regulations in the financial services industry. • Tax and pension laws and regulations. • Environmental regulations. • Regulations governing, for example, public health and safety. 	<ul style="list-style-type: none"> • The form and content of financial statements; • Industry-specific financial reporting issues; • Accounting for transactions under government contracts; or • The accrual or recognition of expenses for income tax or pension costs. <p>Some provisions in those laws and regulations may be directly relevant to specific assertions in the financial statements (for example, the completeness of income tax provisions), while others may be directly relevant to the financial statements as a whole (for example, the required statements constituting a complete set of financial statements). The aim of the requirement in paragraph 13 is for the auditor to obtain sufficient appropriate audit evidence regarding the determination of amounts and disclosures in the financial statements in compliance with the relevant provisions of those laws and regulations.</p> <p>Non-compliance with other provisions of such laws and regulations and other laws and regulations may result in fines, litigation or other consequences for the entity, the costs of which may need to be provided for in the financial statements, but are not</p>	

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	<p>considered to have a direct effect on the financial statements as described in paragraph 6(a).</p> <p>A9. Certain other laws and regulations may need particular attention by the auditor because they have a fundamental effect on the operations of the entity (as described in paragraph 6(b)). Non-compliance with laws and regulations that have a fundamental effect on the operations of the entity may cause the entity to cease operations, or call into question the entity's continuance as a going concern. For example, non-compliance with the requirements of the entity's license or other entitlement to perform its operations could have such an impact (for example, for a bank, non-compliance with capital or investment requirements). There are also many laws and regulations relating principally to the operating aspects of the entity that typically do not affect the financial statements and are not captured by the entity's information systems relevant to financial reporting.</p>	
<p>225.7 Non-compliance with those laws and regulations may result in fines, litigation or other consequences for the client that may have a material effect on its financial statements. Importantly, such non-compliance may have wider public interest implications in terms of</p>	<p>Effect of Laws and Regulations</p> <p>2. The effect on financial statements of laws and regulations varies considerably. Those laws and regulations to which an entity is subject constitute the legal and regulatory framework.</p>	<p>ISA 250 focuses on the impact of non-compliance on the financial statements.</p>

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<p>potentially substantial harm to the client, investors, creditors, employees or the wider public. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.</p>	<p>The provisions of some laws or regulations have a direct effect on the financial statements in that they determine the reported amounts and disclosures in an entity's financial statements. Other laws or regulations are to be complied with by management or set the provisions under which the entity is allowed to conduct its business but do not have a direct effect on an entity's financial statements. Some entities operate in heavily regulated industries (such as banks and chemical companies). Others are subject only to the many laws and regulations that relate generally to the operating aspects of the business (such as those related to occupational safety and health, and equal employment opportunity). Non-compliance with laws and regulations may result in fines, litigation or other consequences for the entity that may have a material effect on the financial statements.</p>	<p>The Code's focus goes beyond the impact on the financial statements.</p> <p>No change recommended.</p>
<p>225.2 Non-compliance with laws and regulations comprises acts of omission or commission, intentional or unintentional, committed by a client or by those charged with governance, management or employees of a client which are contrary to the prevailing laws or regulations.</p>	<p>Definition</p> <p>11. For the purposes of this ISA, the following term has the meaning attributed below:</p> <p>Non-compliance – Acts of omission or commission by the entity, either intentional or unintentional, which are contrary to the prevailing laws or regulations. Such acts include transactions entered into by, or in the name of, the entity, or on its behalf, by those</p>	<p>The IESBA definition is broader as it addresses personal acts. The ISA definition addresses only acts of omission or commission by the entity.</p> <p>The difference arises because of the different scopes of the Code and the ISAs.</p> <p>No change recommended.</p>

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	charged with governance, management or employees.	
225.8 This section does not address: (a) Matters that are clearly inconsequential, judged by their nature and their impact, financial or otherwise, on the client, its stakeholders or the wider public;	–	Implicit in the ISAs in that they deal only with material matters. No change recommended.
(b) Personal misconduct unrelated to the business activities of the client; and	Non-compliance does not include personal misconduct (unrelated to the business activities of the entity) by those charged with governance, management or employees of the entity.	Equivalent. No change recommended.
(c) Non-compliance with laws and regulations committed by persons other than the client, those charged with governance, management or employees of the client. The professional accountant may nevertheless find the guidance in this section helpful in considering how to respond in these situations.	–	Specific to the Code. No change recommended.
225.14 The professional accountant is expected to apply knowledge, judgment and expertise, but is not expected to have detailed knowledge of laws and regulations beyond that which is required for the audit.	... Nevertheless, the auditor's training, experience and understanding of the entity and its industry or sector may provide a basis to recognize that some acts, coming to the auditor's attention, may constitute non-compliance with laws and regulations.	The ISA guidance is generally focused on the audit process. It is not repeated in Section 225.

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<p>Whether an act constitutes actual non-compliance is ultimately a matter for legal determination by a court of law.</p>	<p>5. ... Whether an act constitutes non-compliance is ultimately a matter for legal determination by a court of law.</p> <p>A4. Whether an act constitutes non-compliance with laws and regulations is a matter for legal determination, which is ordinarily beyond the auditor's professional competence to determine. ...</p>	<p>Equivalent.</p> <p>No change recommended.</p>
<p>... Depending on the nature and significance of the matter, the professional accountant may consult on a confidential basis with others within the firm, a network firm, a relevant professional body, or legal counsel.</p>	<p>A16. If management or, as appropriate, those charged with governance do not provide sufficient information to the auditor that the entity is in fact in compliance with laws and regulations, the auditor may consider it appropriate to consult with the entity's in-house legal counsel or external legal counsel about the application of the laws and regulations to the circumstances, including the possibility of fraud, and the possible effects on the financial statements. If it is not considered appropriate to consult with the entity's legal counsel or if the auditor is not satisfied with the legal counsel's opinion, the auditor may consider it appropriate to consult the auditor's own legal counsel as to whether a contravention of a law or regulation is involved, the possible legal consequences, including the possibility of fraud, and what further action, if any, the auditor would take.</p>	<p>The ISA guidance is more focused on the audit process and consideration of the impact on the financial statements. It is not repeated in Section 225.</p> <p>No change recommended.</p>

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<p>Responsibilities of the Client, Its Management and Those Charged with Governance</p> <p>225.9 It is the responsibility of the client or its management, with the oversight of those charged with governance, to ensure that the client's business activities are conducted in accordance with laws and regulations. ...</p>	<p>Responsibility for Compliance with Laws and Regulations (Ref: Para. A1–A6)</p> <p>3. It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements.</p> <p>A1. It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with laws and regulations. ...</p>	<p>Equivalent.</p> <p>(Note: the reference to “client” throughout S225 is necessary because the Code deals with clients that are individuals, not only entities.)</p> <p>No change recommended.</p>
<p>... It is also the responsibility of the client, its management and those charged with governance to identify and address any non-compliance with laws and regulations by the client or by those charged with governance, management or employees of the client.</p>	<p>–</p>	<p>Serves the specific purposes of the proposed NOCLAR Standard, i.e., to highlight that management/TCWG represent the first line of defense against non-compliance, and that they have first responsibility to deal with it.</p> <p>No change recommended.</p>

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	<p>... Laws and regulations may affect an entity's financial statements in different ways: for example, most directly, they may affect specific disclosures required of the entity in the financial statements or they may prescribe the applicable financial reporting framework. They may also establish certain legal rights and obligations of the entity, some of which will be recognized in the entity's financial statements. In addition, laws and regulations may impose penalties in cases of non-compliance.</p>	<p>This guidance is focused on the audit of the financial statements. It is not repeated in Section 225.</p> <p>No change recommended.</p>
	<p>A2. The following are examples of the types of policies and procedures an entity may implement to assist in the prevention and detection of non-compliance with laws and regulations:</p> <ul style="list-style-type: none"> • Monitoring legal requirements and ensuring that operating procedures are designed to meet these requirements. • Instituting and operating appropriate systems of internal control. • Developing, publicizing and following a code of conduct. • Ensuring employees are properly trained and understand the code of conduct. • Monitoring compliance with the code of conduct and acting appropriately to 	<p>More detailed guidance in the ISA, which is appropriate in a process context. This guidance is not repeated in Section 225.</p> <p>No change recommended.</p>

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	<p>discipline employees who fail to comply with it.</p> <ul style="list-style-type: none"> Engaging legal advisors to assist in monitoring legal requirements. Maintaining a register of significant laws and regulations with which the entity has to comply within its particular industry and a record of complaints. <p>In larger entities, these policies and procedures may be supplemented by assigning appropriate responsibilities to the following:</p> <ul style="list-style-type: none"> An internal audit function. An audit committee. A compliance function. 	
<p>Responsibilities of Professional Accountants Performing Audits of Financial Statements</p> <p><i>Complying with Applicable Laws and Regulations</i></p> <p>225.10 In some jurisdictions, there are legal or regulatory provisions governing how professional accountants should address non-compliance or suspected non-compliance with laws and regulations. The professional accountant shall obtain an understanding of those provisions and comply with them, ...</p>	<p><i>Reporting Non-Compliance to Regulatory and Enforcement Authorities</i></p> <p>28. If the auditor has identified or suspects non-compliance with laws and regulations, the auditor shall determine whether the auditor has a responsibility to report the identified or suspected non-compliance to parties outside the entity. (Ref: Para. A19–A20)</p>	<p>Section 225 is focused on requiring the auditor to <i>understand</i> the relevant legal or regulatory requirements and to comply with them. Serves the specific purposes of the proposed NOCLAR standard, i.e., to stimulate increased incidence of compliance by auditors with legal or regulatory reporting requirements.</p>

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		<p>ISA 250 focused more narrowly on determining whether there is a reporting obligation on the auditor.</p> <p>No change recommended.</p>
... including any prohibitions on alerting (“tipping-off”) the client prior to making any disclosure, for example, pursuant to anti-money laundering legislation.	–	<p>Serves the specific purposes of the proposed NOCLAR standard, i.e., auditor’s compliance with laws and regulations to avoid breaching fundamental principle of professional behavior.</p> <p>No change recommended.</p>
	<p>A19. The auditor’s professional duty to maintain the confidentiality of client information may preclude reporting identified or suspected non-compliance with laws and regulations to a party outside the entity. However, the auditor’s legal responsibilities vary by jurisdiction and, in certain circumstances, the duty of confidentiality may be overridden by statute, the law or courts of law. In some jurisdictions, the auditor of a financial institution has a statutory duty to report the occurrence, or suspected occurrence, of</p>	<p>Consideration to be given to whether conforming changes are needed. First sentence of A19 could acknowledge that confidentiality can be overridden to disclose NOCLAR/suspected NOCLAR to an appropriate authority under certain circumstances (as per paragraph 30 of proposed Section 225).</p>

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	<p>non-compliance with laws and regulations to supervisory authorities. Also, in some jurisdictions, the auditor has a duty to report misstatements to authorities in those cases where management and, where applicable, those charged with governance fail to take corrective action. The auditor may consider it appropriate to obtain legal advice to determine the appropriate course of action.</p> <p>Considerations Specific to Public Sector Entities</p> <p>A20. A public sector auditor may be obliged to report on instances of non-compliance to the legislature or other governing body or to report them in the auditor's report.</p>	
	<p><i>Responsibility of the Auditor</i></p> <p>4. The requirements in this ISA are designed to assist the auditor in identifying material misstatement of the financial statements due to non-compliance with laws and regulations. However, the auditor is not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.</p> <p>A3. Non-compliance by the entity with laws and regulations may result in a material misstatement of the financial statements. Detection of non-compliance, regardless of materiality, may affect other aspects of the</p>	<p>This explanatory material is focused on the audit of the financial statements. It is not repeated in Section 225.</p> <p>No change recommended.</p>

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	<p>audit including, for example, the auditor's consideration of the integrity of management or employees.</p> <p>A5. In accordance with specific statutory requirements, the auditor may be specifically required to report, as part of the audit of the financial statements, on whether the entity complies with certain provisions of laws or regulations. In these circumstances, ISA 700² or ISA 800³ deal with how these audit responsibilities are addressed in the auditor's report. Furthermore, where there are specific statutory reporting requirements, it may be necessary for the audit plan to include appropriate tests for compliance with these provisions of the laws and regulations.</p> <p>Considerations Specific to Public Sector Entities</p> <p>A6. In the public sector, there may be additional audit responsibilities with respect to the consideration of laws and regulations which may relate to the audit of financial statements or may extend to other aspects of the entity's operations.</p>	

² ISA 700, *Forming an Opinion and Reporting on Financial Statements*, paragraph 38

³ ISA 800 *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, paragraph 11

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	<p>The Auditor's Consideration of Compliance with Laws and Regulations</p> <p>12. As part of obtaining an understanding of the entity and its environment in accordance with ISA 315,⁴ the auditor shall obtain a general understanding of:</p> <ul style="list-style-type: none"> (a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates; and (b) How the entity is complying with that framework. (Ref: Para. A7) <p>A7. To obtain a general understanding of the legal and regulatory framework, and how the entity complies with that framework, the auditor may, for example:</p> <ul style="list-style-type: none"> • Use the auditor's existing understanding of the entity's industry, regulatory and other external factors; • Update the understanding of those laws and regulations that directly determine the reported amounts and disclosures in the financial statements; • Inquire of management as to other laws or regulations that may be 	<p>The requirements and guidance here are focused on the audit of the financial statements. They are not repeated in Section 225.</p> <p>No change recommended.</p>

⁴ ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 11

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	<p>expected to have a fundamental effect on the operations of the entity;</p> <ul style="list-style-type: none"> • Inquire of management concerning the entity's policies and procedures regarding compliance with laws and regulations; and • Inquire of management regarding the policies or procedures adopted for identifying, evaluating and accounting for litigation claims. <p>13. The auditor shall obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements. (Ref: Para. A8)</p> <p>14. The auditor shall perform the following audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements: (Ref: Para. A9–A10)</p> <p>(a) Inquiring of management and, where appropriate, those charged with governance, as to whether the entity is in compliance with such laws and regulations; and</p>	

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	<p>(b) Inspecting correspondence, if any, with the relevant licensing or regulatory authorities.</p> <p>A10. As the financial reporting consequences of other laws and regulations can vary depending on the entity's operations, the audit procedures required by paragraph 14 are directed to bringing to the auditor's attention instances of non-compliance with laws and regulations that may have a material effect on the financial statements.</p>	
	<p>15. During the audit, the auditor shall remain alert to the possibility that other audit procedures applied may bring instances of non-compliance or suspected non-compliance with laws and regulations to the auditor's attention. (Ref: Para. A11)</p> <p>A11. Audit procedures applied to form an opinion on the financial statements may bring instances of non-compliance or suspected non-compliance with laws and regulations to the auditor's attention. For example, such audit procedures may include:</p> <ul style="list-style-type: none"> • Reading minutes; • Inquiring of the entity's management and in-house legal counsel or external legal counsel concerning litigation, claims and assessments; and 	<p>The requirements and guidance here are focused on the audit of the financial statements. They are not repeated in Section 225.</p> <p>No change recommended.</p>

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	<ul style="list-style-type: none"> Performing substantive tests of details of classes of transactions, account balances or disclosures. <p>16. The auditor shall request management and, where appropriate, those charged with governance, to provide written representations that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed to the auditor. (Ref: Para. A12)</p> <p>A12. Because the effect on financial statements of laws and regulations can vary considerably, written representations provide necessary audit evidence about management's knowledge of identified or suspected non-compliance with laws and regulations, whose effects may have a material effect on the financial statements. However, written representations do not provide sufficient appropriate audit evidence on their own and, accordingly, do not affect the nature and extent of other audit evidence that is to be obtained by the auditor.⁵</p> <p>17. In the absence of identified or suspected non-compliance, the auditor is not required to perform audit procedures regarding the</p>	

⁵ ISA 580, *Written Representations*, paragraph 4

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	entity's compliance with laws and regulations, other than those set out in paragraphs 12–16.	
<p><i>Obtaining an Understanding of the Matter</i></p> <p>225.11 If, in the course of performing an audit of financial statements, the professional accountant becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the professional accountant shall obtain an understanding of the matter, including:</p> <ul style="list-style-type: none"> • The nature of the act and the circumstances in which it has been or may be committed; and • The application of the relevant laws and regulations to the circumstances. 	<p>Audit Procedures When Non-Compliance Is Identified or Suspected</p> <p>18. If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain: (Ref: Para. A13)</p> <ul style="list-style-type: none"> (a) An understanding of the nature of the act and the circumstances in which it has occurred; and (b) Further information to evaluate the possible effect on the financial statements. (Ref: Para. A14) 	<p>The scope of the understanding is slightly wider in S225 (application of relevant laws and regulations) to serve the particular purposes of the Code, i.e., to understand the potential consequences of the non-compliance in a broad sense and not only with respect to the possible effect on the financial statements.</p> <p>No change recommended.</p>
	<p><i>Matters Relevant to the Auditor's Evaluation</i> (Ref: Para. 18(b))</p> <p>A14. Matters relevant to the auditor's evaluation of the possible effect on the financial statements include:</p> <ul style="list-style-type: none"> • The potential financial consequences of non-compliance with laws and regulations on the financial statements including, for example, the imposition of fines, penalties, damages, threat of expropriation of assets, enforced 	<p>This guidance is focused on the audit of the financial statements. It is not repeated in Section 225.</p> <p>No change recommended.</p>

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	<p>discontinuation of operations, and litigation.</p> <ul style="list-style-type: none"> • Whether the potential financial consequences require disclosure. • Whether the potential financial consequences are so serious as to call into question the fair presentation of the financial statements, or otherwise make the financial statements misleading. 	
	<p>A13. If the auditor becomes aware of the existence of, or information about, the following matters, it may be an indication of non-compliance with laws and regulations:</p> <ul style="list-style-type: none"> • Investigations by regulatory organizations and government departments or payment of fines or penalties. • Payments for unspecified services or loans to consultants, related parties, employees or government employees. • Sales commissions or agent's fees that appear excessive in relation to those ordinarily paid by the entity or in its industry or to the services actually received. 	<p>Guidance focused on the audit process, so appropriate for the ISAs and not repeated in Section 225.</p> <p>No change recommended.</p>

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	<ul style="list-style-type: none"> • Purchasing at prices significantly above or below market price. • Unusual payments in cash, purchases in the form of cashiers' checks payable to bearer or transfers to numbered bank accounts. • Unusual transactions with companies registered in tax havens. • Payments for goods or services made other than to the country from which the goods or services originated. • Payments without proper exchange control documentation. • Existence of an information system which fails, whether by design or by accident, to provide an adequate audit trail or sufficient evidence. • Unauthorized transactions or improperly recorded transactions. • Adverse media comment. 	
	<p>5. The auditor is responsible for obtaining reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error.⁶ In conducting an audit of</p>	<p>Explanatory material focused on the audit of the financial statements. Not repeated in Section 225.</p>

⁶ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 5

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	<p>financial statements, the auditor takes into account the applicable legal and regulatory framework. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs.⁷ In the context of laws and regulations, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for such reasons as the following:</p> <ul style="list-style-type: none"> • There are many laws and regulations, relating principally to the operating aspects of an entity, that typically do not affect the financial statements and are not captured by the entity's information systems relevant to financial reporting. • Non-compliance may involve conduct designed to conceal it, such as collusion, forgery, deliberate failure to record transactions, management override of controls or intentional misrepresentations being made to the auditor. • ... 	<p>No change recommended.</p>

⁷ ISA 200, paragraphs A51-A52

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	<p>Ordinarily, the further removed non-compliance is from the events and transactions reflected in the financial statements, the less likely the auditor is to become aware of it or to recognize the non-compliance.</p>	
	<p>7. In this ISA, differing requirements are specified for each of the above categories of laws and regulations. For the category referred to in paragraph 6(a), the auditor's responsibility is to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations. For the category referred to in paragraph 6(b), the auditor's responsibility is limited to undertaking specified audit procedures to help identify non-compliance with those laws and regulations that may have a material effect on the financial statements.</p>	<p>Explanatory material focused on the audit of the financial statements. Not repeated in Section 225.</p> <p>No change recommended.</p>
	<p>8. The auditor is required by this ISA to remain alert to the possibility that other audit procedures applied for the purpose of forming an opinion on financial statements may bring instances of identified or suspected non-compliance to the auditor's attention. Maintaining professional skepticism throughout the audit, as required</p>	<p>Explanatory material focused on the audit of the financial statements. Not repeated in Section 225.</p> <p>No change recommended.</p>

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	by ISA 200, ⁸ is important in this context, given the extent of laws and regulations that affect the entity.	
225.12 If the professional accountant suspects that non-compliance with laws and regulations has been or may be committed, the professional accountant shall discuss the matter with the appropriate level of management and, where appropriate, those charged with governance.	19. If the auditor suspects there may be non-compliance, the auditor shall discuss the matter with management and, where appropriate, those charged with governance. ...	Same, except that Section 225 also covers potential NOCLAR that may be committed. No change recommended.
225.13 Such discussion serves to clarify the professional accountant's understanding of the facts and circumstances relevant to the matter and its potential consequences. ...	<i>Audit Procedures</i> (Ref: Para. 19) A15. The auditor may discuss the findings with those charged with governance where they may be able to provide additional audit evidence. For example, the auditor may confirm that those charged with governance have the same understanding of the facts and circumstances relevant to transactions or events that have led to the possibility of non-compliance with laws and regulations.	Comparable effects. No change recommended.
... The information conveyed by the professional accountant may prompt management or those charged with governance to duly investigate the matter.	--	Serves specific purposes of the proposed NOCLAR standard, i.e., to have management address the matter in the first instance. No change recommended.

⁸ ISA 200, paragraph 15

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	<p><i>Reporting Non-Compliance to Those Charged with Governance</i></p> <p>22. Unless all of those charged with governance are involved in management of the entity, and therefore are aware of matters involving identified or suspected non-compliance already communicated by the auditor,⁹ the auditor shall communicate with those charged with governance matters involving non-compliance with laws and regulations that come to the auditor's attention during the course of the audit, other than when the matters are clearly inconsequential.</p> <p>23. If, in the auditor's judgment, the non-compliance referred to in paragraph 22 is believed to be intentional and material, the auditor shall communicate the matter to those charged with governance as soon as practicable.</p>	<p>Specific to ISA context re requirement to communicate with TCWG. Not repeated in Section 225.</p> <p>No change recommended.</p>
<p>225.15 The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider include:</p> <ul style="list-style-type: none"> • The nature and circumstances of the matter. 		<p>Serves specific purposes of the proposed NOCLAR standard, i.e., guidance to help the auditor address the NOCLAR from an ethical perspective.</p> <p>No change recommended.</p>

⁹ ISA 260, *Communication with Those Charged with Governance*, paragraph 13

Proposed Section 225	ISA 250	Staff Preliminary Comments
<ul style="list-style-type: none"> The individuals actually or potentially involved. The likelihood of collusion. The potential consequences of the matter. Whether that level of management is able to investigate the matter and take appropriate action. 		
225.16 The appropriate level of management is generally at least one level above the person or persons involved or potentially involved in the matter. ...		<p>Serves specific purposes of the proposed NOCLAR standard, i.e., guidance to help the auditor address the NOCLAR from an ethical perspective.</p> <p>No change recommended.</p>
... If the professional accountant believes that management is involved in the non-compliance or suspected non-compliance, the professional accountant shall discuss the matter with those charged with governance, where they are independent of management. ...	24. If the auditor suspects that management or those charged with governance are involved in non-compliance, the auditor shall communicate the matter to the next higher level of authority at the entity, if it exists, such as an audit committee or supervisory board.	<p>Equivalent.</p> <p>No change recommended.</p>
... The professional accountant may also consider discussing the matter with internal auditors, where applicable. In the context of a group, the appropriate level may be management at an entity that controls the client.		<p>Serves specific purposes of the proposed NOCLAR standard, i.e., guidance to help the auditor address the NOCLAR from an ethical perspective.</p> <p>No change recommended.</p>

Proposed Section 225	ISA 250	Staff Preliminary Comments
<p>225.17 The professional accountant is encouraged to obtain legal advice if:</p> <ul style="list-style-type: none"> (a) No higher level of authority exists; (b) The professional accountant is unsure as to the person with whom to discuss the matter; (c) Insufficient information is obtained to satisfy the professional accountant that the client is in compliance with laws and regulations; or (d) Management or those charged with governance disagree with the professional accountant's assessment of the situation, including the potential consequences of the matter. 	<p>Where no higher authority exists, or if the auditor believes that the communication may not be acted upon or is unsure as to the person to whom to report, the auditor shall consider the need to obtain legal advice.</p> <p>19. ... If management or, as appropriate, those charged with governance do not provide sufficient information that supports that the entity is in compliance with laws and regulations and, in the auditor's judgment, the effect of the suspected non-compliance may be material to the financial statements, the auditor shall consider the need to obtain legal advice. (Ref: Para. A15–A16)</p>	<p>Equivalent in effect re consideration of obtaining legal advice.</p> <p>No change recommended.</p>
<p><i>Addressing the Matter with Management and Those Charged with Governance</i></p> <p>225.18 If management and, where appropriate, those charged with governance agree that non-compliance has been or may be committed, the professional accountant shall prompt them to take appropriate and timely actions, if they have not already done so, to:</p> <ul style="list-style-type: none"> (a) Rectify, remediate or mitigate the consequences of the non-compliance; 	<p>–</p>	<p>Specific to Section 225.</p> <p>No change recommended.</p>

Proposed Section 225	ISA 250	Staff Preliminary Comments
<p>(b) Deter the commission of the non-compliance where it has not yet occurred; or</p> <p>(c) Disclose the matter to an appropriate authority where required by law or regulation or where considered necessary in the public interest.</p>		
<p>225.19 The professional accountant shall consider whether the client, its management and those charged with governance understand their legal or regulatory responsibilities with respect to the matter. If not, the professional accountant may suggest appropriate sources of information or recommend that they obtain legal advice.</p>	–	<p>Specific to Section 225.</p> <p>No change recommended.</p>
<p>225.20 In light of the professional accountant's understanding of the matter based on the information obtained, and having regard to how management has responded to the matter, the professional accountant shall comply with applicable:</p> <p>(a) Laws and regulations, including legal or regulatory provisions governing the reporting of non-compliance or suspected non-compliance with laws and regulations to an appropriate authority. In this regard, some laws and regulations may stipulate a period within which reports are to be made; and</p>	–	<p>Specific to Section 225.</p> <p>No change recommended.</p>

Proposed Section 225	ISA 250	Staff Preliminary Comments
<p>(b) Requirements under professional standards, including:</p> <ul style="list-style-type: none"> • Communication with those charged with governance. • Communication with the group engagement team in the case of a group audit. • Consideration of the implications of the matter for the auditor's report, including disclosure in the report. 		
<p><i>Determining Whether Further Action is Needed</i></p> <p>225.21 The professional accountant shall determine if further action is needed to achieve the professional accountant's objectives under this section.</p>	–	<p>Specific to Section 225.</p> <p>No change recommended.</p>
<p>225.22 Whether further action is needed, and the nature and extent of it, will depend on various factors, including:</p> <ul style="list-style-type: none"> • The legal and regulatory framework. • The appropriateness and timeliness of the response of management and, where applicable, those charged with governance. • The urgency of the matter. 	<p>A18. In exceptional cases, the auditor may consider whether withdrawal from the engagement, where withdrawal is possible under applicable law or regulation, is necessary when management or those charged with governance do not take the remedial action that the auditor considers appropriate in the circumstances, even when the non-compliance is not material to the financial statements. When deciding whether withdrawal from the engagement is necessary, the auditor may consider seeking</p>	<p>Guidance generally specific to Section 225.</p> <p>ISA 250.18 presumes that the auditor will have evaluated the remedial action taken by management or TCWG.</p> <p>No change recommended.</p>

Proposed Section 225	ISA 250	Staff Preliminary Comments
<ul style="list-style-type: none"> • The pervasiveness of the matter throughout the client. • Whether the professional accountant continues to have confidence in the integrity of management and, if they are independent of management, those charged with governance. • Whether the non-compliance or suspected non-compliance is likely to recur. • The likelihood of continuing consequences for the entity, investors, creditors, employees or the wider public. • Whether there is credible evidence of actual or potential substantial harm to the interests of the entity, investors, creditors, employees or the wider public. An act that causes substantial harm is one that results in immediate or ongoing serious adverse consequences to any of these parties in financial or non-financial terms 	<p>legal advice. If withdrawal from the engagement is not possible, the auditor may consider alternative actions, including describing the non-compliance in an Other Matter paragraph in the auditor's report.¹⁰</p>	
	<p>20. If sufficient information about suspected non-compliance cannot be obtained, the auditor shall evaluate the effect of the lack of sufficient appropriate audit evidence on the auditor's opinion.</p>	<p>Requirement specific to an audit of financial statements.</p> <p>No change recommended.</p>

¹⁰ ISA 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraph 8

Proposed Section 225	ISA 250	Staff Preliminary Comments
	<p>21. The auditor shall evaluate the implications of non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action. (Ref: Para. A17–A18)</p> <p>A17. As required by paragraph 21, the auditor evaluates the implications of non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations. The implications of particular instances of non-compliance identified by the auditor will depend on the relationship of the perpetration and concealment, if any, of the act to specific control activities and the level of management or employees involved, especially implications arising from the involvement of the highest authority within the entity.</p>	<p>Requirement and guidance specific to an audit of financial statements.</p> <p>No change recommended.</p>
<p>225.23 Relevant factors to consider in judging the appropriateness of the response of management and those charged with governance include whether:</p> <ul style="list-style-type: none"> The non-compliance or suspected non-compliance has been adequately investigated. 		<p>This process aspect more pertinent to Section 225.</p> <p>No change recommended.</p>

Proposed Section 225	ISA 250	Staff Preliminary Comments
<ul style="list-style-type: none"> • Action has been, or is being, taken to rectify, remediate or mitigate the consequences of the non-compliance. • Action has been, or is being, taken to deter the commission of the non-compliance where it has not yet occurred. • Appropriate steps have been, or are being, taken to reduce the risk of re-occurrence, for example, additional controls or training. • The non-compliance or suspected non-compliance has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate. 		
<p>225.24 Examples of circumstances that may cause the professional accountant no longer to have confidence in the integrity of management and, where applicable, those charged with governance include situations where:</p> <ul style="list-style-type: none"> • The professional accountant suspects or has evidence of their involvement or intended involvement in the non-compliance. • The professional accountant is aware that they have knowledge of such non-compliance and, contrary to legal or regulatory requirements, have not reported, or authorized reporting of, the 	–	<p>Serves specific purposes of the proposed NOCLAR standard, i.e., guidance to help the auditor address the NOCLAR from an ethical perspective.</p> <p>No change recommended.</p>

Proposed Section 225	ISA 250	Staff Preliminary Comments
<p>matter to an appropriate authority within a reasonable period.</p>		
<p>225.25 Further action may include:</p> <ul style="list-style-type: none"> Disclosing the matter to an appropriate authority notwithstanding that there is no legal or regulatory requirement to do so. 	<p><i>Reporting Non-Compliance to Regulatory and Enforcement Authorities</i></p> <p>28. If the auditor has identified or suspects non-compliance with laws and regulations, the auditor shall determine whether the auditor has a responsibility to report the identified or suspected non-compliance to parties outside the entity. (Ref: Para. A19–A20)</p> <p>A19. The auditor's professional duty to maintain the confidentiality of client information may preclude reporting identified or suspected non-compliance with laws and regulations to a party outside the entity. However, the auditor's legal responsibilities vary by jurisdiction and, in certain circumstances, the duty of confidentiality may be overridden by statute, the law or courts of law. In some jurisdictions, the auditor of a financial institution has a statutory duty to report the occurrence, or suspected occurrence, of non-compliance with laws and regulations to supervisory authorities. Also, in some jurisdictions, the auditor has a duty to report misstatements to authorities in those cases where management and, where applicable, those charged with governance fail to take corrective action. The auditor may consider it</p>	<p>Consideration to be given to whether conforming changes are needed – first sentence of A19 could acknowledge that confidentiality can be overridden to disclose NOCLAR/suspected NOCLAR to an appropriate authority under certain circumstances (as per paragraph 30 of proposed Section 225).</p>

Proposed Section 225	ISA 250	Staff Preliminary Comments
	<p>appropriate to obtain legal advice to determine the appropriate course of action.</p> <p>Considerations Specific to Public Sector Entities</p> <p>A20. A public sector auditor may be obliged to report on instances of non-compliance to the legislature or other governing body or to report them in the auditor's report.</p>	
<ul style="list-style-type: none"> Withdrawing from the engagement and the professional relationship where permitted by law or regulation. 	<p>A18. In exceptional cases, the auditor may consider whether withdrawal from the engagement, where withdrawal is possible under applicable law or regulation, is necessary when management or those charged with governance do not take the remedial action that the auditor considers appropriate in the circumstances, even when the non-compliance is not material to the financial statements. When deciding whether withdrawal from the engagement is necessary, the auditor may consider seeking legal advice. If withdrawal from the engagement is not possible, the auditor may consider alternative actions, including describing the non-compliance in an Other Matter paragraph in the auditor's report.¹¹</p>	<p>Comparable in effect re withdrawal.</p> <p>No changes recommended.</p>
<p>225.26 In determining the nature and extent of further action needed, the professional accountant shall</p>	–	<p>Specific to Section 225.</p> <p>No changes recommended.</p>

¹¹ ISA 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraph 8

Proposed Section 225	ISA 250	Staff Preliminary Comments
exercise professional judgment and take into account whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant at the time, would be likely to conclude that the professional accountant has acted appropriately in the public interest.		
225.27 As consideration of the matter may involve complex analysis and judgments, the professional accountant may consider obtaining legal advice to understand the professional accountant's options and the professional or legal implications of taking any particular course of action. The professional accountant may also consider consulting on a confidential basis with a regulator or relevant professional body.	–	Not in the ISA. No changes recommended.
<p><i>Determining Whether to Disclose the Matter to an Appropriate Authority</i></p> <p>225.28 In determining whether to disclose the matter to an appropriate authority, relevant factors to consider include:</p> <ul style="list-style-type: none"> • The nature and extent of the actual or potential harm to the interests of the entity, investors, creditors, employees or the wider public. For example: <ul style="list-style-type: none"> ○ Whether the matter could threaten the client's license to operate. 	–	Specific to Section 225. No changes recommended.

Proposed Section 225	ISA 250	Staff Preliminary Comments
<ul style="list-style-type: none"> ○ If the client is listed on a securities exchange, whether the matter could adversely impact the fair and orderly market in the client's securities or pose a systemic risk to the financial markets. ○ Whether products that could be harmful to public health or safety would be likely to continue to be sold by the entity. • Whether there is an appropriate authority that can receive the information and cause the matter to be investigated. • Whether there exists robust and credible protection from civil, criminal or professional liability or retaliation afforded by legislation or regulation, such as under whistle-blowing legislation or regulation. • Whether there are actual or potential threats to the physical safety of the professional accountant or other individuals. <p>Disclosure would be precluded if it would be contrary to law or regulation.</p>		
225.29 The appropriate authority to which to disclose the matter will depend on the nature of the matter, for example, a securities regulator in the case of fraudulent financial reporting or an environmental	–	Specific to Section 225. No changes recommended.

Proposed Section 225	ISA 250	Staff Preliminary Comments
protection agency in the case of a breach of environmental laws and regulations.		
225.30 If the professional accountant decides that disclosure of the matter to an appropriate authority would be an appropriate course of action in the circumstances, this would not be considered a breach of the duty of confidentiality under Section 140 of this Code. When making such disclosure, the professional accountant shall act in good faith and exercise caution when making statements and assertions. The professional accountant shall also consider whether it is appropriate to inform the client of the professional accountant's intentions before disclosing the matter	–	Specific to Section 225. Consideration to be given to effect on application material throughout the IAASB's International Standards.
<i>Withdrawal from the Engagement and the Professional Relationship</i> 225.31 Where the professional accountant determines that withdrawing from the engagement and the professional relationship would be appropriate, doing so would not be a substitute for taking other actions that may be needed to achieve the professional accountant's objectives under this section. In some jurisdictions, however, there may be limitations as to the further actions available to the professional accountant and withdrawal may be the only available course of action. When withdrawing from the professional	–	Not in the ISA. No changes recommended.

Proposed Section 225	ISA 250	Staff Preliminary Comments
relationship, the professional accountant shall comply with the requirements of section 210.		
	<p><i>Reporting Non-Compliance in the Auditor's Report on the Financial Statements</i></p> <p>25. If the auditor concludes that the non-compliance has a material effect on the financial statements, and has not been adequately reflected in the financial statements, the auditor shall, in accordance with ISA 705, express a qualified opinion or an adverse opinion on the financial statements.¹²</p> <p>26. If the auditor is precluded by management or those charged with governance from obtaining sufficient appropriate audit evidence to evaluate whether non-compliance that may be material to the financial statements has, or is likely to have, occurred, the auditor shall express a qualified opinion or disclaim an opinion on the financial statements on the basis of a limitation on the scope of the audit in accordance with ISA 705.</p> <p>27. If the auditor is unable to determine whether non-compliance has occurred because of</p>	<p>Requirements specific to an audit of financial statements.</p> <p>No changes recommended.</p>

¹² ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*, paragraphs 7–8

Proposed Section 225	ISA 250	Staff Preliminary Comments
	limitations imposed by the circumstances rather than by management or those charged with governance, the auditor shall evaluate the effect on the auditor's opinion in accordance with ISA 705.	
<p>Documentation</p> <p>225.32 Matters of non-compliance with laws and regulations will ordinarily be significant matters in the context of an audit engagement. <i>International Standards on Auditing</i> (ISAs) require a professional accountant performing an audit of financial statements to:</p> <ul style="list-style-type: none"> • Prepare documentation sufficient to enable an understanding of significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions; • Document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place; and 	<p>Documentation</p> <p>29. The auditor shall include in the audit documentation identified or suspected non-compliance with laws and regulations and the results of discussion with management and, where applicable, those charged with governance and other parties outside the entity.¹³ (Ref: Para. A21)</p>	<p>Section 225 text refers to the documentation requirements in both ISAs 230 and 250.¹⁴</p> <p>No changes recommended.</p>

¹³ ISA 230, *Audit Documentation*, paragraphs 8–11, and A6

¹⁴ ISA 250.29: The auditor shall include in the audit documentation identified or suspected non-compliance with laws and regulations and the results of discussion with management and, where applicable, those charged with governance and other parties outside the entity.

Proposed Section 225	ISA 250	Staff Preliminary Comments
<ul style="list-style-type: none"> • Include in the documentation identified or suspected non-compliance with laws and regulations, and the results of discussion with management and, where applicable, those charged with governance and other parties outside the entity. 		
<p>225.33 Matters to be documented in this regard would in particular include:</p> <ul style="list-style-type: none"> • How management and, where applicable, those charged with governance have responded to the matter. • The courses of action the professional accountant considered and the decisions that were taken, having regard to the reasonable and informed third party perspective. • How the professional accountant is satisfied that the professional accountant's objectives under this section have been met. 		<p>Serves specific purposes of the proposed NOCLAR standard, i.e., guidance to help the auditor document how the auditor has responded to NOCLAR pursuant to the objectives of Section 225.</p> <p>No change recommended.</p>
	<p>A21. The auditor's documentation of findings regarding identified or suspected non-compliance with laws and regulations may include, for example:</p> <ul style="list-style-type: none"> • Copies of records or documents. • Minutes of discussions held with management, those charged with 	<p>Not necessary in Section 225 given cross reference to ISAs.</p> <p>No changes recommended.</p>

Proposed Section 225	ISA 250	Staff Preliminary Comments
	governance or parties outside the entity.	
<p>Responsibilities of Professional Accountants in Public Practice Providing Professional Services Other Than Audits of Financial Statements</p> <p><i>Complying with Applicable Laws and Regulations</i></p> <p>225.34 In some jurisdictions, there are legal or regulatory provisions governing how professional accountants should address non-compliance or suspected non-compliance with laws and regulations. The professional accountant shall obtain an understanding of those provisions and comply with them, including any prohibitions on alerting (“tipping-off”) the client prior to making any disclosure, for example, pursuant to anti-money laundering legislation.</p>	–	<p>Specific to Section 225.</p> <p>No changes recommended.</p>
<p><i>Obtaining an Understanding of the Matter and Addressing It with Management and Those Charged with Governance</i></p> <p>225.35 If, in the course of providing a professional service to a client or when acting for the client, the professional accountant becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the professional accountant shall seek to obtain an understanding of the matter, including:</p>	–	<p>Specific to Section 225.</p> <p>No changes recommended.</p>

Proposed Section 225	ISA 250	Staff Preliminary Comments
<ul style="list-style-type: none"> The nature of the act and the circumstances in which it has been committed or may be about to be committed; and The application of the relevant laws and regulations to the circumstances. 		
225.36 If the professional accountant suspects that non-compliance with laws and regulations has been or may be committed, the professional accountant shall discuss the matter with the appropriate level of management and, if the professional accountant has access to them and where appropriate, those charged with governance.	–	Specific to Section 225. No changes recommended.
225.37 Such discussion serves to clarify the professional accountant's understanding of the facts and circumstances relevant to the matter and its potential consequences. The information conveyed by the professional accountant may prompt management or those charged with governance to duly investigate the matter.	–	Specific to Section 225. No changes recommended.
225.38 The professional accountant is expected to apply knowledge, judgment and expertise, but is not expected to have detailed knowledge of laws and regulations beyond that which is required for the professional service for which the accountant was engaged. Whether an act constitutes actual non-compliance is ultimately a matter for legal	–	Specific to Section 225. No changes recommended.

Proposed Section 225	ISA 250	Staff Preliminary Comments
determination by a court of law. Depending on the nature and significance of the matter, the professional accountant may consult on a confidential basis with others within the firm, a network firm, a relevant professional body, or legal counsel.		
<p>225.39 The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider include:</p> <ul style="list-style-type: none"> • The nature and circumstances of the matter. • The individuals actually or potentially involved. • The likelihood of collusion. • The potential consequences of the matter. • Whether that level of management is able to investigate the matter and take appropriate action. 	–	<p>Specific to Section 225.</p> <p>No changes recommended.</p>
<p>225.40 If the professional accountant is performing a non-audit service for an audit client of the firm, the professional accountant shall communicate the matter within the firm so as to enable the audit engagement team to determine how it should be addressed in accordance with the provisions of this section.</p>	–	<p>Specific to Section 225.</p> <p>No changes recommended.</p>

Proposed Section 225	ISA 250	Staff Preliminary Comments
225.41 If the professional accountant is performing a non-audit service for an audit client of a network firm, the professional accountant shall consider whether to communicate the matter to the network firm so as to enable the engagement partner for the audit to be informed about it.	-	Specific to Section 225. No changes recommended.
<i>Determining Whether Further Action is Needed</i> 225.42 The professional accountant shall also consider whether further action is needed beyond consideration of the professional accountant's association with the client to achieve the professional accountant's objectives under this section.	–	Specific to Section 225. No changes recommended.
225.43 Whether the professional accountant can remain associated with the client and the nature and extent of further action will depend on factors such as: <ul style="list-style-type: none"> • The legal and regulatory framework. • The appropriateness and timeliness of the response of management and, where applicable, those charged with governance. • The urgency of the matter. • The involvement of management or those charged with governance in the matter. 	–	Specific to Section 225. No changes recommended.

Proposed Section 225	ISA 250	Staff Preliminary Comments
<ul style="list-style-type: none"> The likelihood of substantial harm to the interests of the client, investors, creditors, employees or the wider public. The likelihood of continuing consequences for the client, investors, creditors, employees or the wider public. 		
<p>225.44 Further action may include:</p> <ul style="list-style-type: none"> If the client is not an audit client of the firm or a network firm, disclosing the matter to the external auditor, if any. Disclosing the matter to an appropriate authority notwithstanding that there is no legal or regulatory requirement to do so. 	–	<p>Specific to Section 225.</p> <p>No changes recommended.</p>
<p>225.45 In considering whether to disclose outside the client, relevant factors include:</p> <ul style="list-style-type: none"> Whether doing so would be contrary to law or regulation. Whether the terms or nature of the engagement preclude disclosure of information about the client to third parties, such as when there is legal privilege or similar (for example, where the professional accountant is engaged by a law firm to conduct a forensic assignment) Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor (for example, to avoid 	–	<p>Specific to Section 225.</p> <p>No changes recommended.</p>

Proposed Section 225	ISA 250	Staff Preliminary Comments
tipping-off) in an ongoing investigation into the non-compliance or suspected non-compliance.		
225.46 If the professional accountant decides that disclosure of the matter to an appropriate authority would be an appropriate course of action in the circumstances, this would not be considered a breach of the duty of confidentiality under Section 140 of this Code. When making such disclosure, the professional accountant shall act in good faith and exercise caution when making statements and assertions. The professional accountant shall also consider whether it is appropriate to inform the client of the professional accountant's intentions before disclosing the matter.	–	Specific to Section 225. No changes recommended.
225.47 The professional accountant may consider obtaining legal advice to understand the professional or legal implications of taking any particular course of action. The professional accountant may also consider consulting on a confidential basis with a regulator or relevant professional body.	–	Specific to Section 225. No changes recommended.
<i>Considering Whether to Remain Associated with the Client</i> 225.48 To comply with the fundamental principles of integrity and professional behavior, the professional accountant shall consider whether	–	Specific to Section 225. No changes recommended.

Proposed Section 225	ISA 250	Staff Preliminary Comments
the professional accountant can remain associated with the client.		
<p><i>Documentation</i></p> <p>225.49 The professional accountant is encouraged to document:</p> <ul style="list-style-type: none"> • The identified or suspected non-compliance with laws and regulations. • The results of discussion with management and, where applicable, those charged with governance and other parties. • How management and, where applicable, those charged with governance have responded to the matter. • The courses of action the professional accountant considered and the decisions that were taken. • How the professional accountant is satisfied that the professional accountant's objectives under this section have been met. <p>As such documentation may be used in a court of law, how it is prepared requires appropriate care and diligence.</p>	–	<p>Specific to Section 225.</p> <p>No changes recommended.</p>
225.50 Documentation provides a number of benefits, including the following:	–	<p>Specific to Section 225.</p> <p>No changes recommended.</p>

Proposed Section 225	ISA 250	Staff Preliminary Comments
<ul style="list-style-type: none"> • It provides evidence of the professional accountant's judgments in forming conclusions. • It may serve to protect the professional accountant if challenged in legal or disciplinary proceedings to justify the professional accountant's actions in responding to the matter. • It may assist the professional accountant if required to appear before a court of law or tribunal to provide testimony regarding the matter. 		

Comparative Analysis: Proposed Section 210¹⁵ vs. ISA 300

Proposed Addition to Section 210	ISA 300	Comments
<p>210.13 In the case of an audit of financial statements, a professional accountant shall request the existing accountant to provide known information regarding any facts or circumstances that, in the existing accountant's opinion, the proposed accountant needs to be aware of before deciding whether to accept the engagement. If the client consents to the existing accountant disclosing any such facts or circumstances to the proposed accountant, the existing accountant shall provide the information honestly and unambiguously. If the client fails or refuses to grant the existing accountant permission to discuss the client's affairs with the proposed accountant, the existing accountant shall disclose this fact to the proposed accountant, who shall carefully consider such failure or refusal when determining whether or not to accept the appointment.</p>	<p>Additional Considerations in Initial Audit Engagements</p> <p>13. The auditor shall undertake the following activities prior to starting an initial audit:</p> <ul style="list-style-type: none"> (a) Performing procedures required by ISA 220 regarding the acceptance of the client relationship and the specific audit engagement;¹⁶ and (b) Communicating with the predecessor auditor, where there has been a change of auditors, in compliance with relevant ethical requirements. (Ref: Para. A20) 	<p>Addition to S210 complements communication requirement in ISA 300.</p> <p>No changes recommended.</p>

¹⁵ Based on draft tabled at November 2014 TF meeting

¹⁶ ISA 220, paragraphs 12–13

Comparative Analysis: Proposed Section 210¹⁷ vs. Other International Standards

Proposed Addition to Section 210	International Standard	Staff Preliminary Comments
225.30 If the professional accountant decides that disclosure of the matter to an appropriate authority would be an appropriate course of action in the circumstances, this would not be considered a breach of the duty of confidentiality under Section 140 of this Code. When making such disclosure, the professional accountant shall act in good faith and exercise caution when making statements and assertions. The professional accountant shall also consider whether it is appropriate to inform the client of the professional accountant's intentions before disclosing the matter	<p><u>ISQC 1, <i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements</i></u></p> <p>A56. Relevant ethical requirements establish an obligation for the firm's personnel to observe at all times the confidentiality of information contained in engagement documentation, unless specific client authority has been given to disclose information, or there is a legal or professional duty to do so. Specific laws or regulations may impose additional obligations on the firm's personnel to maintain client confidentiality, particularly where data of a personal nature are concerned.</p>	Consideration to be given to whether conforming changes are needed based on permission to override confidentiality granted under Section 225.30.
<i>Section 225.30 as listed above</i>	<p><u>ISA 240, <i>The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements</i></u></p> <p>43. If the auditor has identified or suspects a fraud, the auditor shall determine whether there is a responsibility to report the occurrence or suspicion to a party</p>	Consideration to be given to whether conforming changes are needed based on permission to override confidentiality granted under Section 225.30.

¹⁷ Based on draft tabled at November 2014 TF meeting

Proposed Addition to Section 210	International Standard	Staff Preliminary Comments
	<p>outside the entity. Although the auditor's professional duty to maintain the confidentiality of client information may preclude such reporting, the auditor's legal responsibilities may override the duty of confidentiality in some circumstances. (Ref: Para. A65–A67)</p> <p>A65. The auditor's professional duty to maintain the confidentiality of client information may preclude reporting fraud to a party outside the client entity. However, the auditor's legal responsibilities vary by country and, in certain circumstances, the duty of confidentiality may be overridden by statute, the law or courts of law. In some countries, the auditor of a financial institution has a statutory duty to report the occurrence of fraud to supervisory authorities. Also, in some countries the auditor has a duty to report misstatements to authorities in those cases where management and those charged with governance fail to take corrective action.</p> <p>A66. The auditor may consider it appropriate to obtain legal advice to determine the appropriate course of action in the circumstances, the purpose of which is to ascertain the steps necessary in</p>	

Proposed Addition to Section 210	International Standard	Staff Preliminary Comments
	considering the public interest aspects of identified fraud.	
Section 225.30 as listed above	<p><u>ISA 260 (Revised), Communication with Those Charged with Governance</u></p> <p>7. Law or regulation may restrict the auditor's communication of certain matters with those charged with governance. For example, laws or regulations may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act. In some circumstances, potential conflicts between the auditor's obligations of confidentiality and obligations to communicate may be complex. In such cases, the auditor may consider obtaining legal advice.</p>	Consideration to be given to whether conforming changes are needed based on permission to override confidentiality granted under Section 225.30.
<p>Responsibilities of Professional Accountants Performing Audits of Financial Statements</p> <p><i>Complying with Applicable Laws and Regulations</i></p> <p>225.10 In some jurisdictions, there are legal or regulatory provisions governing how professional accountants should address non-compliance or suspected non-compliance with laws and regulations. The professional</p>	<p><u>ISA 450, Evaluation of Misstatements Identified During the Audit</u></p> <p>A8. Law or regulation may restrict the auditor's communication of certain misstatements to management, or others, within the entity. For example, laws or regulations may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act.</p>	Consideration to be given to whether conforming changes are needed.

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<p>accountant shall obtain an understanding of those provisions and comply with them, including any prohibitions on alerting (“tipping-off”) the client prior to making any disclosure, for example, pursuant to anti-money laundering legislation.</p>	<p>In some circumstances, potential conflicts between the auditor's obligations of confidentiality and obligations to communicate may be complex. In such cases, the auditor may consider seeking legal advice.</p>	
<p><i>Section 225.30 as listed above</i></p>	<p><u>ISA 600. Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)</u></p> <p>48. A component auditor may be required by statute, regulation or for another reason, to express an audit opinion on the financial statements of a component. In that case, the group engagement team shall request group management to inform component management of any matter of which the group engagement team becomes aware that may be significant to the financial statements of the component, but of which component management may be unaware. If group management refuses to communicate the matter to component management, the group engagement team shall discuss the matter with those charged with governance of the group. If the matter remains unresolved, the group engagement team, subject to legal and professional confidentiality considerations, shall consider whether to advise the</p>	<p>Consideration to be given to whether conforming changes are needed based on permission to override confidentiality granted under Section 225.30.</p>

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	component auditor not to issue the auditor's report on the financial statements of the component until the matter is resolved. (Ref: Para. A65)	
Section 225.30 as listed above	<p><u>ISA 620, Using the Work of an Auditor's Expert</u></p> <p>11. The auditor shall agree, in writing when appropriate, on the following matters with the auditor's expert: (Ref: Para. A23–A26)</p> <ul style="list-style-type: none"> (a) The nature, scope and objectives of that expert's work; (Ref: Para. A27) (b) The respective roles and responsibilities of the auditor and that expert; (Ref: Para. A28–A29) (c) The nature, timing and extent of communication between the auditor and that expert, including the form of any report to be provided by that expert; and (Ref: Para. A30) (d) The need for the auditor's expert to observe confidentiality requirements. (Ref: Para. A31) <p>A31. It is necessary for the confidentiality provisions of relevant ethical requirements that apply to the auditor</p>	

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	<p>also to apply to the auditor's expert. Additional requirements may be imposed by law or regulation. The entity may also have requested that specific confidentiality provisions be agreed with auditor's external experts.</p> <p><i>Appendix</i></p> <p>...</p> <p>Confidentiality</p> <ul style="list-style-type: none"> • The need for the auditor's expert to observe confidentiality requirements, including: <ul style="list-style-type: none"> ○ The confidentiality provisions of relevant ethical requirements that apply to the auditor. ○ Additional requirements that may be imposed by law or regulation, if any. <p>Specific confidentiality provisions requested by the entity, if any.</p>	
<p><i>Section 225.30 as listed above</i></p>	<p><u>ISA 706 (Revised), <i>Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report</i></u></p> <p>A15. The content of an Other Matter paragraph reflects clearly that such other matter is not required to be presented</p>	<p>Consideration to be given to whether conforming changes are needed based on permission to override confidentiality granted under Section 225.30.</p>

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	<p>and disclosed in the financial statements. An Other Matter paragraph does not include information that the auditor is prohibited from providing by law, regulation or other professional standards, for example, ethical standards relating to confidentiality of information. An Other Matter paragraph also does not include information that is required to be provided by management.</p>	
<p><i>Section 225.30 as listed above</i></p>	<p><u>ISAE 3410, Assurance Engagements on Greenhouse Gas Statements</u></p> <p>A152. An Other Matter paragraph does not include information that the practitioner is prohibited from providing by laws, regulations or other professional standards, for example, ethical standards relating to confidentiality of information. An Other Matter paragraph also does not include information that is required to be provided by management.</p>	<p>Consideration to be given to whether conforming changes are needed based on permission to override confidentiality granted under Section 225.30.</p>