

IAASB

NOCLAR

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IAASB Meeting

Brussels

March 19, 2015

Background

- Project started Oct 2009 to address regulatory concerns re:
 - Auditor hiding behind “client confidentiality”
 - Limited auditor toolkit (i.e., only modification of audit report and/or resigning)
- Guidance lacking
 - Process and factors to consider to reach appropriate conclusion
- Auditors vs. professional accountants more broadly
- Started with fraud, now NOCLAR

Background

- Key project objective
 - To create framework to guide professional accountants (PAs) in deciding how best to serve public interest when they come across NOCLAR/suspected NOCLAR
- ED issued Aug 2012
 - Significant concerns across most stakeholder groups re operability of proposals and potential for unintended consequences

Global NOCLAR Roundtables – 2014

- Hong Kong (May), Brussels (June), Washington DC (July)
- Over 160 senior-level participants from wide range of stakeholder groups
- 27 jurisdictions, including 13 G-20 countries
- Observers:
 - IAASB members
 - PIOB members and staff
 - IESBA CAG Chair



Proposed Response Framework (Appendix 1 Agenda Item 9-A)

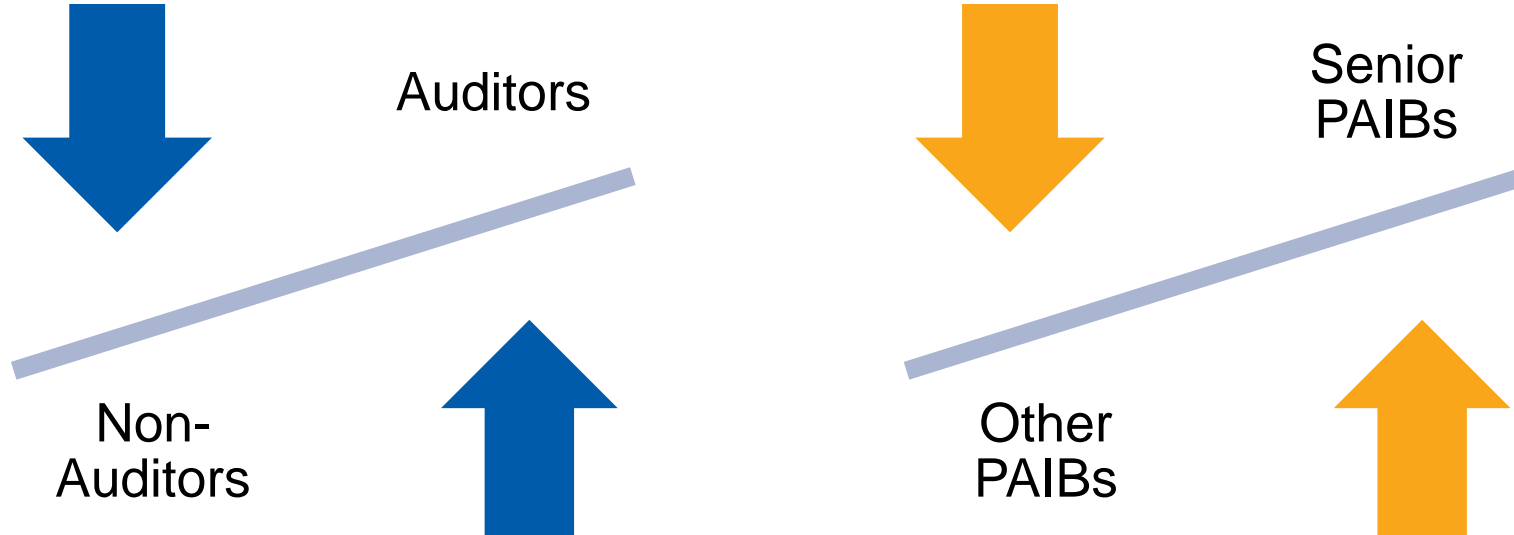
Objectives

- For all categories of PAs:
 - Comply with fundamental principles re integrity and professional behavior
 - Seek to have management/TCWG rectify, remediate or mitigate consequences; or deter commission of NOCLAR
 - Take such further action as may be needed in the public interest

Scope

- Scope aligned with ISA 250 scope (all categories of PAs)
 - Those laws and regulations that directly affect financial statements
 - Other laws and regulations that may be fundamental to entity's business and operations
- No distinction between PIEs and non-PIEs

Differential Approach Given Different Levels of Expectations



Auditors

- Proposed standard intended to complement ISA 250
 - Recognizing different objectives of IESBA Code vs ISAs
- Builds on ISA 250 process
 - Obtaining an understanding of the matter
 - Raising it with management/TCWG
 - Evaluating implications of the matter
 - Documentation

Key Areas of Complementarity vis-à-vis ISA 250

- Evaluation of implications to stakeholders in both financial *and* non-financial terms
- “Substantial harm” vs “material effect on the financial statements”
- Not only NOCLAR that has been committed but that may be committed
- Prompt management/TCWG to address consequences, stop NOCLAR, or report to appropriate authority
- Comply with laws and regulations (L&R) and professional standards
- Determine if further action needed to achieve objectives in public interest

Auditors – Determination of Further Action

- Nature and extent of further action will depend on various factors
- Courses of further action may include:
 - Disclosing the matter to appropriate authority
 - Withdrawing from engagement/client relationship (where permitted by L&R)
- Objective and demanding third party test
 - Would reasonable and informed 3rd party, weighing all the facts and circumstances available at the time, likely conclude that the auditor has acted appropriately in public interest?

Auditors – Documentation

- Builds on documentation requirements under ISAs
- Must include:
 - How management/TCWG have responded to the matter
 - Courses of action considered and decisions taken
 - How the auditor is satisfied objectives under the proposed standard met

PAs in Public Practice Providing Services Other Than Audits

- Actions
 - Discuss with appropriate level of management or TCWG
 - If client also an audit client of the firm/network, raise within the firm/consider raising within the network
- Stand back
 - Consider whether further action needed, e.g. disclosing to external auditor or appropriate authority
 - Consider whether can remain associated with the client
- Documentation encouraged

Strengths of Proposed Framework

- A holistic, comprehensive and balanced model
- A proportionate approach
- Emphasis on tone at the top within entity
- Stimulating increased reporting under law or regulation
- An expanded auditor's toolkit
- Rigorous consideration of further action in public interest

Forward Timeline

Timing	Action
April 2015	Approval of re-ED (120-day comment period)
May	Discussion with NSS
December	Full review of comments on re-ED
	Discussion with IAASB (?)
March 2016	Approval of final standard (?)



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