

Supplement D to Agenda Item 7

Note: This supplement has been prepared for information only. A comprehensive summary of the significant comments received on the July 2015 Exposure Draft (ED), *Responding to Non-Compliance with Laws and Regulations*, and the Task Force's related analysis of significant issues are presented at the [March 2016 IAASB meeting](#). All comment letters on the ED can be accessed [here](#).

Please consider the environment before printing this supplement.

COMMENTS RECEIVED ON IAASB NOCLAR EXPOSURE DRAFT

Invitation for Additional Input

Should respondents be of the view that a more fulsome review of ISA 250 would nevertheless be beneficial in due course, the IAASB would need to consider the possibility of doing so in consulting on future Work Plans. Respondents are therefore asked for their comments, if any, on what further changes may be required to ISA 250 and why.

#	Source	Comment
1.	AGC	None
2.	ASB	None
3.	ANAN	<p>The Association agrees with IAASB to continue with the limited amendments as proposed in the cure the ED. This would guarantee timely finalisation of the proposed changes to the IAASB's international standards and allow the Board to focus its attention on the major projects contained in its Strategy Document for 2015 - 2019</p> <p>The Association is of the opinion that a wholesome review of ISA 250 would be necessary and beneficial to the practitioners in future. This is because it tends to provide adequate ethical and legal cover to the practitioners.</p>
4.	ASSIREVI	None
5.	AUASB	None
6.	BDO	<p>We believe that the proposed ISA 250 amendments identified in this particular ED are necessary and sufficient, so we do not propose that the IAASB commence a project to revise ISA 250 beyond this. While a number of the matters highlighted by the IAASB for further consideration of ISA 250 may merit further attention and work-effort in years to come, we do not believe that this would be the best use of the IAASB's resources at this time.</p> <p>Having examined the IAASB's Work Program for 2015-2016 and the Strategy for 2015-2019, we would prefer the work-effort of the IAASB continue to be directed towards more pressing matters facing the audit profession, examples of which include (but are not limited to):</p> <ul style="list-style-type: none"> • Understanding ISA implementation - findings related to ISA 315

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		<ul style="list-style-type: none"> • Work of the Innovation Working Group – effects of technology on audit • Quality of Group Audits - practical application of ISA 600.
7.	CAANZ	None
8.	CAASB	We agree with the IAASB's conclusion that it is not necessary at this time to undertake a more fulsome revision of <i>ISA 250, Consideration of Laws and Regulations in an Audit of Financial Statements</i> . We believe that a review would be beneficial in due course, and support the IAASB's plan to consult with stakeholders on the possibility of doing so. At this time we have not identified any specific areas in ISA 250 where changes may be required that we wish to bring to your attention.
9.	CAI	None
10.	CBarnard	None
11.	CIPFA	None
12.	CNCC	None
13.	CPAA	<p>We agree with the IAASB's assessment that the ISA 250 does not warrant immediate revision, however we suggest the following amendment could be considered along with the amendments to address IESBA's NOCLAR project.</p> <p>Paragraph 3 and A1, state that '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...' whereas we consider that given that the standard will apply globally to all sizes of entities with varied governance arrangements, it should be the responsibility of management and those charged with governance.</p>
14.	DTT	<p>DTTL's acknowledges the invitation for additional input pertaining to ISA 250, as well as, the related questions in paragraph 16 of the EM. DTTL concurs with the views expressed by the IAASB in the EM that it is not "necessary at this time to further explore these areas or to undertake a more fulsome revision of ISA 250." DTTL believes that the IAASB's <i>Work Plan for 2015-2016: Enhancing Audit Quality and Preparing for the Future</i> is comprehensive and that the current agenda requires the immediate and full attention of the Board. DTTL believes that the Board should consider all the feedback received from the respondents to this Proposal when making decisions about whether or not to include ISA 250 in any future work plans.</p> <p>DTTL is aware that IESBA, in developing the IESBA Re-ED, went to great lengths to ensure that the proposed changes to the IESBA Code did not inappropriately expand the scope and objectives of ISA 250. Therefore, DTTL believes it is important to realize that any future proposed revisions to ISA 250 (other than those addressed in the Proposal) may have unintended consequences to the IESBA Code as well. Accordingly, any proposed revisions to ISA 250 by the IAASB would need to be carefully coordinated with the IESBA Board so as to ensure continued consistency between the IESBA Code and the ISAs.</p>

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		<p>DTTL does not believe it is appropriate to expand the scope of ISA 250 at this time. If the IAASB does consider adding ISA 250 to a future work plan, DTTL cautions the Board to consider whether further extending the auditor’s responsibility relating to NOCLAR would be appropriate and what the benefits would be to the quality of the audit engagement as a whole relative to the incremental costs to address the expanded requirements. As currently described in paragraph 4 to ISA 250, “... the auditor is not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations” (emphasis added). DTTL is concerned that any expansion to the auditor’s responsibilities would be contrary to this underlying premise, and could result in expectations of the auditor that would not be possible of being accomplished, or at least not at reasonable cost. Further, while additional work effort by the auditor may in theory result in actual or suspected NOCLAR being identified, the auditor may ultimately be perceived in such circumstances as merely as a “whistleblower.” Imposing more requirements on auditors may also have a negative impact on the “free-flow of information” between the auditor and the client, which could ultimately damage the quality of the audit engagement.</p>
15.	EYG	<p>Although there could be organizational improvements and further useful clarifications to ISA 250, we do not believe a more fulsome review of ISA 250 is necessary in the short term as we believe the standard is “fit for purpose” in the current environment. We have not experienced implementation issues that cause us to believe that the standard is in need of fundamental revision.</p> <p>However, there likely are opportunities in certain ISAs to better highlight or clarify the auditor’s responsibilities related to NOCLAR, such as in the context of group audits or use of experts. We believe that the IAASB could consider such improvements as part of its in-process projects related to group audits, quality control and audits of financial institutions.</p>
16.	FACPCE	None
17.	FEE	None
18.	FSR	<p>1. 17 On balance, the IAASB did not believe it is necessary at this time to further explore these areas or to undertake a more fulsome revision of ISA 250. Developing these additional changes could prolong the finalization of the proposed changes to the IAASB’s International Standards and could have unintended consequences in circumstances where ethical codes other than the IESBA Code are applied. Finally, the IAASB also noted that its Work Program 2015–2016 is unlikely to be able to accommodate a project to more fully revise ISA 250 without delaying or deferring other projects that received broad support when the IAASB consulted on its Strategy for 2015–2019. Accordingly, the IAASB will continue with the limited amendments as proposed in this ED.</p> <p>We agree.</p>
19.	GAO	None
20.	HC	<p>We agree with the proposal in paragraph 16(b) that ISA 250 should address making inquiries of management or, when appropriate, those charged with governance (TCWG), regarding NOCLAR that may occur. If management does not follow or violate applicable laws and regulations, the auditor should identify the reason behind it. It is the responsibility of management and/or TCWG to ensure that the entity has followed or complied with laws and regulations.</p>

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		<p>We are also supportive with the proposal in paragraph 16(c) that ISA 250 should include a requirement to obtain an understanding of how management identifies and addresses known or suspected NOCLAR as an essential component in obtaining an understanding of the entity and its environment. Auditor should understand how management maintains an organizational structure and policies/procedures regarding compliance with laws and regulations.</p> <p>Furthermore, we believe that this understanding is critical and necessary to the overall risk assessment of the entity and its environment. Additionally, we also recommend that if an entity lacks a proper policy for dealing with NOCLAR, basic guidelines should be recommended by the auditor, where applicable.</p>
21.	HKICPA	None
22.	IBR-IRE	None
23.	ICAG	<p>3. Consultations undertaken as part of developing the IAASB’s current Strategy and Work Plan had not demonstrated that ISA 250 warranted immediate revision, particularly in light of the other projects that the IAASB was asked to prioritize in the public interest.</p> <p>Answer: Given the IESBA ED on Responding to NOCLAR (Comments due September 4th 2015, it is prudent that the revision of ISA 250 be done alongside so as to avoid the actual or perceived inconsistency between the two standards.</p> <p>4. The IAASB was of the view that this Explanatory Memorandum could be a vehicle for soliciting stakeholders’ views as to whether there is merit in exploring other aspects of ISA 250 where further improvements may need to be considered in due course (i.e., under a future IAASB Work Plan).</p> <p>Answer: Other aspects of ISA 250 should be explored in view of the demands that will be made by regulators given the increase in complexity of the business environment and introduction of more laws and regulations as well as the likely future changes to the responsibility of management and auditors.</p> <p>5. For example, further consideration of the following areas may be viewed as beneficial:</p> <p>a. Whether the existing distinction between the types of laws and regulations (see paragraph 6 of ISA 250) and the different levels of work effort applied to each under extant ISA 250 warrants further investigation or revision.</p> <p>Answer: So far the distinction made covers laws that affect the figures in the financial and those that affect the going concern of the entity. However further revision should be undertaken to cover laws that affect public interest unless those laws affecting the public interest are imbedded in the distinction made. If that is the case then a revision should bring that out clearly.</p> <p>b. Whether ISA 250 should address making inquiries of management or, when appropriate, TCWG, regarding NOCLAR that may occur.</p> <p>Answer: Paragraph 17 page 18, taken care of this. But can be further addressed in ISA 250 as well as ISA 315 and should be replicated appropriately in affected standards. Also given the facts stated in page 12 paragraph 4, it’s necessary to address this.</p>

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		<p>c. Whether ISA 250 should include a requirement to obtain an understanding of how management identifies and addresses known or suspected NOCLAR as an essential component in obtaining an understanding of the entity and its environment. Answer: Yes for the same reason stated in page 12 paragraph 4 its necessary to address this.</p> <p>d. How ISA 250 addresses <i>personal</i> misconduct related to the business activities of the entity or parties associated with the entity, including contractors. Answer: A scope should be carved for personal misconduct as well as what constitutes business activity so that addressing this will not be just left to professional judgment.</p> <p>e. How NOCLAR is addressed in other ISAs, such as when dealing with auditor’s experts and in a group audit situation. Answer: It should replicate in affected ISA’s appropriately to avoid inconsistency.</p> <p>6. On balance, the IAASB did not believe it is necessary at this time to further explore these areas or to undertake a more fulsome revision of ISA 250. Developing these additional changes could prolong the finalization of the proposed changes to the IAASB’s International Standards and could have unintended consequences in circumstances where ethical codes other than the IESBA Code are applied. Finally, the IAASB also noted that its <i>Work Program 2015–2016</i> is unlikely to be able to accommodate a project to more fully revise ISA 250 without delaying or deferring other projects that received broad support when the IAASB consulted on its <i>Strategy for 2015–2019</i>. Accordingly, the IAASB will continue with the limited amendments as proposed in this ED. Answer: Well this is a decision already taken by the board however serious considerations should be given to responses from stakeholders in arriving at a final decision.</p> <p>7. Should respondents be of the view that a more fulsome review of ISA 250 would nevertheless be beneficial in due course, the IAASB would need to consider the possibility of doing so in consulting on future Work Plans. Respondents are therefore asked for their comments, if any, on what further changes may be required to ISA 250 and why? Answer: As stated in ISA 260 i.e. prejudice of investigation should be replicated in pages 21 (A15 & Page 6(5), this should be addressed in paragraphs that make mention of tipping off. Also, the ISA should address what an auditor should do in the case the auditor is precluded from withdrawal but there is a likely recurrence of NOCLAR.</p>
24.	ICAP	None
25.	ICAS	We agree with the IAASB’s approach, to propose only limited amendments to ISA 250 at this stage, but reiterate our comments in response to question 3 (c) regarding the time and cost burden associated with translating and applying frequent limited revisions to the ISAs.
26.	ICAZ	None
27.	ICPAK	None

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28.	IDW	We are not aware of audit firms or audit inspections suggesting that ISA 250 is causing significant problems in practice. Furthermore, the issues identified in paragraph 16 of the explanatory memorandum suggest a wholesale revision of ISA 250, which does not appear to be appropriate at this time given the other projects on audit quality with a higher priority at this time. We suggest that the IAASB await the results of its consultation on the next Strategy and Work Plan before considering any further initiatives on ISA 250.
29.	IFIAR	None
30.	IRBA	<p>General</p> <ol style="list-style-type: none"> 1. The matters as already highlighted in paragraph 16 of the explanatory memorandum are worth exploring further. <p>Paragraphs 12 – 17 - The Auditor’s Consideration of Compliance with Laws and Regulations</p> <ol style="list-style-type: none"> 2. We believe that paragraphs 12 to 17 currently reflect the minimum work effort that the auditor would perform and do not necessarily encourage the auditor to perform further audit work in instances where there are heightened risks of non-compliance. Consideration should be given to expanding these paragraphs to sufficiently emphasise that auditors follow a risk-based approach when considering compliance with laws and regulations. 3. Considerations that are specific to Small and Medium-Sized Entities should be included, since the risk of non-compliance in such entities may be greater, owing to lack of understanding about and awareness of the relevant laws and regulations among management and those charged with governance. 4. As part of the audit procedures that the auditor will perform to help identify instances of non-compliance with laws and regulations, we recommend that paragraph 14(a) should include reference to inquiries of internal auditors as well as the entity’s compliance officer, if applicable. Furthermore, paragraph 14(b) should include specific reference to both external communications with regulators as well as internal correspondence within the entity. Often auditors tend to neglect the internal correspondence aspects. <p>Assertions</p> <ol style="list-style-type: none"> 5. Consideration should be given to more clearly contextualise the link between NoCLAR and the auditor’s use of assertions in considering the different types of misstatements that may occur throughout the audit process. This includes, for example, which assertions could be affected by NoCLAR that have a direct effect on the determination of material amounts and disclosures in the financial statements. “Compliance” is not an additional assertion; rather the risk of material misstatement related to NoCLAR in relation to both categories of laws and regulation (as described in paragraph 6 of the standard) is an integral part of risk assessment and risk response throughout the audit. 6. Furthermore, the standard should clarify or further enhance the fact that when evaluating the possible effect of NoCLAR on the financial statements, the auditor would consider both the qualitative and quantitative effects of the non-compliance. However, the focus should be more on the qualitative considerations than the quantitative ones. <p>Close calls</p>

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		7. ISA 570 (Revised) introduced auditor responsibilities around so-called “close-calls” in relation to going concern and for auditors to challenge the adequacy of disclosures for “close calls” in view of the applicable financial reporting framework. Consideration should be given as to whether NoCLAR in terms of ISA 250 warrants something similar. For example, depending on the facts and circumstances, the auditor may determine that additional disclosures about instances of NoCLAR are necessary to achieve fair presentation, even if no disclosures are explicitly required by the applicable financial reporting framework.
31.	ISCA	None
32.	JICPA	<p>We see no need to conduct a comprehensive revision of ISA 250 under the future IAASB Work Plan, since the basic concept and framework in ISA 250 are still effective.</p> <p>However, we believe that it may be beneficial to explore the following areas in order to assist auditors in applying ISA 250 more effectively:</p> <ul style="list-style-type: none"> • <i>Whether ISA 250 should include a requirement to obtain an understanding of how management identifies and addresses known or suspected NOCLAR as an essential component in obtaining an understanding of the entity and its environment.</i> <p>Considering the evolving changes of the environments surrounding the audit and the entity, it may be beneficial to explore this area for certain types of audits (e.g., PIE audits), in order to assist the auditor in identifying instances of non-compliance or suspected non-compliance with laws and regulations that would have a material effect on the financial statements.</p> <ul style="list-style-type: none"> • <i>How NOCLAR is addressed in a group audit situation</i> <p>It may be beneficial to explore the idea of developing guidance for the group audits of global entities relevant to ISA 250. At the same time, we think it will be important to recognize that the legal and regulatory frameworks vary considerably by jurisdiction, and to avoid the development of standards that end up difficult to apply in practice.</p>
33.	KICPA	We have no additional comment.
34.	MAZARS	None
35.	MAASB	We agree that the above areas are beneficial especially on item b) and c) which will assist the auditors in their assessment of an entity's compliance with laws and regulations. We also agree with the IAASB on the limited amendments to certain International Standards to address the IESBA's NOCLAR proposals. We believe that the above areas can be dealt with separately in another project.
36.	MICPA	None
37.	NBA	We do not consider a further revision of ISA 250 necessary. In our opinion, the proposed limited changes to ISA 250 are sufficient.
38.	NZAUASB	None
39.	PWC	With respect to the IAASB's invitation for additional input, we are not convinced of the need for further improvements to ISA 250 at this time. The IAASB's current workplan focuses on a number of projects that its stakeholders determined were of highest priority in enhancing audit quality. In

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		the absence of evidence that ISA 250 in its current form is giving rise to significant issues in its application by auditors, we believe the Board's resources are best targeted on these other priority projects.
40.	SAICA	Refer IRBA response
41.	SMPC	<p>We have received feedback that the use of the word “shall” in the extant ISA 250 paragraphs 19 and 20 may be contrary to the tipping off provisions of certain Anti Money Laundering (AML) Regulations in some jurisdictions, and note that the IAASB proposes to address this within application material of ISA 240 and ISA 250; but not within the requirements section of these standards. In our view, this is an appropriate time for the IAASB to address this issue within the requirement paragraph 19, and include a preclusion statement similar to that in the Code (proposed para. 225.27 of the IESBA ED).</p> <p>Furthermore, ISA 250.A15 cross refers to paragraph 19 which first requires a discussion with management and, where appropriate also with TCWG. However, A15 is silent on management and only refers to TCWG, thus it is not implied that any tipping off regulation may potentially apply to communication with management. We believe that it should be clear that the same tipping off carve out applies also to management and that this is of such importance as to warrant inclusion in the requirements section.</p> <p>This issue applies equally to ISA 240: We note that the mandatory “shall” is included in ISA 240.40, with no recognition of the fact that the required communication could contravene national legislation in certain circumstances. We suggest that paragraph 40 be cross referenced to the new application and explanatory material (A59a) and also recommend that paragraph 40 be amended to state “where permitted by law or regulation, the auditor may...” or changed in line with ISA 450.8¹ “The auditor shall communicate...unless prohibited by law or regulation”.</p> <p>Similarly, the revised application material paragraph A92 in ISRE 2400 (Revised) is focused on external issues. We believe that the IAASB should consider including detail on the internal matters as raised in the cross reference para 52(a). Again, the Board may wish to consider revisiting the inclusion of “shall” in section (a) of this particular paragraph.</p> <p>The new paragraph A8a in ISQC 1 does not seem to include recognition that such communication between the auditor and predecessor audit may not be able to take place without a client waiver of confidentiality in certain jurisdictions.</p>
42.	UKFRC	<p>Whilst we agree with the IAASB that prolonging the finalisation of the proposed changes to the ISAs beyond the effective date of the IESBA Re-ED could have unintended consequences, we are of the view that a more fulsome review of ISA 250 is necessary. In this regard, we support the suggestions made in paragraph 16 of the ED that further consideration of the following areas is essential:</p> <ul style="list-style-type: none"> • The existing distinction between the types of laws and regulations in paragraph 6 of ISA 250) and the different levels of work effort applied to each under extant ISA 250 warrants further investigation or revision (see below for further comment on this matter). • ISA 250 should address making inquiries of management or, when appropriate, TCWG, regarding NOCLAR that may occur. • ISA 250 should include a requirement to obtain an understanding of how management identifies and addresses known or suspected NOCLAR as an essential component in obtaining an understanding of the entity and its environment.

¹ ISA 450, *Evaluation of Misstatements Identified during the Audit*

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		<ul style="list-style-type: none"> • ISA 250 should include guidance addressing <i>personal</i> misconduct related to the business activities of the entity or parties associated with the entity, including contractors. • NOCLAR should be addressed in other ISAs, such as when dealing with auditor's experts and in a group audit situation. <p>However, we believe that there are a number of other aspects of ISA 250 where improvement is required, particularly in regard to the distinction between the different categories of laws and regulations and the procedural approach in ISA 250, and have discussed our concerns related to these matters below.</p> <p>Distinction between the different categories of laws and regulations</p> <p>ISA 250 currently distinguishes the auditor's responsibilities and work effort in relation to the entity's compliance with laws and regulations into two categories conditional upon whether those laws and regulations "effect the <i>determination</i> of material amounts and disclosures in the financial statements".</p> <p>If the provisions of those laws and regulations have an "effect on the <i>determination</i> of material amounts and disclosures", for example, most directly they may require specific disclosures to be made in the financial statements ('direct laws and regulations'), then the auditor is required to obtain sufficient appropriate audit evidence regarding compliance with those provisions. Notwithstanding that paragraph A8 of ISA 250 makes a confusing contradictory point that costs of non-compliance (e.g. litigation costs) may need to be provided for in the financial statements, but are not considered to have an affect on the financial statements.</p> <p>ISA 250 describes the second category as other laws and regulations that do not have a direct effect on the determination of amounts and disclosures in the financial statements ('other laws and regulations'). ISA 250 explains further that compliance with those other laws and regulations may be: 'fundamental to the operating aspects of the business', 'the entity's ability to continue its business', or to 'avoid material penalties'.</p> <p>Accordingly, the ISA recognises that other laws and regulations may have a material effect on the financial statements but does not specifically describe them as such. However, the auditor is not required to obtain sufficient appropriate audit evidence on the entity's compliance with other laws and regulations, but only required to perform limited specified audit procedures to help identify such instances.</p> <p>In some sectors, e.g. banking, non-compliance with other laws and regulations covering operating aspects of the business can certainly have a "fundamental effect on the operations of the entity" or impact the "entity's ability to continue its business" and would therefore impact the financial statements. Yet, under the current ISA 250 requirements, whether breaches of such laws and regulations give rise to actual or potential material liabilities may not immediately be obvious to the auditor, or may not be evidenced in the entity's information or by actions of the entity because they are outside the information systems that are the auditor's normal focus.</p> <p>We recognise that the auditor's responsibilities cannot be open-ended to the effect of identifying and determining compliance with all laws and regulations pertaining to the entity, but the ISA fails to give auditors a sufficient mechanism to identify those laws and regulations that have, or may potentially have, a material effect on the financial statements.</p>

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		<p>This challenge, or lack of clarity, lies significantly in the underlying framework of the ISA which is primarily procedural based as opposed to outcome based with a risk focused assessment, which is discussed further below (Procedural Approach versus Risk Based Approach). However, there are other aspects of ISA 250 in relation to this matter that need to be explored or strengthened through revision such as:</p> <ul style="list-style-type: none"> • The boundaries between direct laws and regulations and other laws and regulations in the context of the financial statement audit (as noted in the ED); • Introducing requirements and guidance for the auditor to obtain an understanding of laws or regulations pertaining to the circumstances of the entity including those laws or regulations governing how <i>the auditor</i> should address non-compliance, suspected non-compliance and potential non-compliance; • Introducing guidance that assists the auditor to determine the depth and breadth of the understanding of relevant laws and regulations (and subsequent response) required. For instance, the IAASB might also explore to what extent ISA 250 should require action by the auditor under the auditor's wider public interest responsibilities? For example, breaches of environmental laws and regulations that may endanger the health or safety of employees or the public; personal misconduct of employees unrelated to the business activities of the client; or non-compliance with laws and regulations committed by persons conducting business affairs with the entity. <p>Procedural approach versus a Risk Based Approach</p> <p>ISA 250 is an overly procedural standard that is out of line with the ISA's outcome based approach with a risk focused assessment ('risk-based approach'). In the redrafting of ISA 250 during the IAASB's Clarity Project, a number of stakeholders expressed concern that the ISA should be updated to be aligned with the risk-based approach. We appreciate that the IAASB introduced some elements of the risk-based approach in respect of the auditor's work effort relating to non-compliance with direct laws and regulations, (described above in 'Distinction between the different categories of laws and regulations') but as any further revision to the ISA was out of scope of the project, the ISA remains primarily procedural based, making it deficient in many aspects.</p> <p>Procedural requirements can increase audit quality when they form part of, or supplement, an already established risk-based approach (for example, when they require auditors to examine a matter more thoroughly). However, in practice, absent a risk-based approach, the risk that the auditor does not identify material misstatement(s) of the financial statements due to non-compliance with laws and regulation (detection risk) is increased. This is because a procedural approach instantly narrows the focus of the audit, whereas a risk-based approach allows the auditor to exercise professional judgment and choose which audit procedures will be most effective in the circumstances.</p> <p>In this respect we wish to draw attention to the recent findings of the FRC Audit Quality Team's thematic review into the auditors' considerations of compliance with laws and regulations (Thematic Review).² In the Thematic Review it was noted that improvements were needed in the identification and assessment of the laws and regulations affecting the specific audited entity, including the need for greater professional scepticism in relation to possible breaches that could affect the financial statements. The Thematic Review notes that auditors' had a lack of</p>

² FRC Audit Quality Thematic Review (January 2014) 'Fraud risks and laws and regulations'

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		<p>focus on identifying the specific risks in relation to non-compliance with laws and regulations, and that the consideration of laws and regulations, and the performance of related audit procedures was viewed as a compliance exercise rather than as an important and integral part of the audit. Aligning ISA 250 to a risk-based approach could have a significant positive impact on audit quality as a result of better risk assessments through a more detailed understanding of the entity and its environment, including its internal control, and improved design and performance of audit procedures to respond to assessed risks of material misstatements.</p> <p>Also, distinguishing between the different categories of laws and regulations may be less complicated under the risk model. The need to obtain a more thorough understanding of the entity and its environment, including its internal control under the risk model, as opposed to the current requirement to obtain a “general understanding”, will give auditors greater opportunity to identify laws and regulations that merit their attention.</p> <p>We do recognise that there could be some challenges in aligning ISA 250 to a risk-based approach. There will likely be several aspects of this approach that the IAASB would need to explore further. For example:</p> <ul style="list-style-type: none"> • Risk of material misstatement at the financial statement level and the assertion level – ISA 250 only briefly discusses the risk assessment, but in relation to the ‘implications of non-compliance ...to other aspects of the audit’.³ Risks of material misstatement at the assertion level for laws and regulations that set out financial reporting requirements can probably be aligned to those already set out in ISA 315. However, there is no guidance on management assertions in relation to other instances of laws and regulations, other than those that are explicitly stated (e.g. written representations) • Internal controls - In performing an audit, auditors are required to understand and evaluate internal controls, and this should include understanding and evaluating controls that assist management and those charged with governance comply with laws and regulations (preventative) and controls that enable them to detect and address instances of NOCLAR, including addressing relevant reporting requirements. ISA 250 has very little guidance on internal controls. The IAASB would need to update the ISA to reflect more recent developments in management’s internal controls over financial reporting, compliance and conduct of business. • Objectives - The objective should reflect the application of the audit risk ISAs in the context of identifying and appropriately responding to the risks resulting from non-compliance with laws and regulations. Currently the objectives of ISA 250 focus on specified audit procedures and do not sufficiently identify the desired outcome (paragraph 8(b) of ISA 250 in particular). As the objectives are written as specified procedures, there is a danger that the auditor is more focused on establishing whether the procedures have been undertaken, and not on applying judgement about the effect of any identified instances of non-compliance with laws and regulations (i.e. going beyond the specified procedures). • ISA 250 and ISA 570⁴ - the ISAs would be enhanced by linking non-compliance with laws and regulations that could impact an entity’s ability to continue its business and the auditor’s responsibilities relating to management’s use of the going concern assumption in ISA 570.

³ ISA 250 paragraph 21

⁴ International Standard on Auditing 570 ‘Going Concern’

Responding to Non-Compliance or Suspected Non-Compliance with Laws or Regulations — Supplement D – Compilation of General Comments
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#	Source	Comment
43.	WPK	None