

The Institute of Public Accountants



IPA INSTITUTE OF PUBLIC
ACCOUNTANTS®

21 October 2015

The Chairman
International Auditing and Assurance Standards Board
529 5th Avenue
New York New York
USA

Dear Ken

ED “Responding to Non-compliance with Laws and Regulations”

Thank you for the opportunity to comment on the exposure draft “Responding to Non-compliance or Suspected Non-compliance with Laws and Regulations”.

The Institute of Public Accountants (IPA) broadly supports the amendments, arising from the proposed International Ethical Standards Board for Accountants (IESBA) standard on responding to Non-compliance with Law and Regulations, to ISA 250 “Consideration of Laws and Regulations in the Audit of Financial Statements” and consequential amendments to:

- ISA 220 – “Quality Control for an Audit of Financial Statements”
- ISA 240 – “The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements”
- ISA 260 – “Communication with Those Charged with Governance”
- ISA 450 – “Evaluation of Misstatements Identified during the Audit”
- ISQC 1 – “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements”
- ISRE 2400 – “Engagements to Review Historical Financial Statements”, and
- ISAE 3402 – “Assurance Reports on Controls at a Service Organisation”.

The IPA believes that ISA 250 should be self-contained, and as such the proposed changes to ISA 250 are deficient in that they do not provide adequate guidance in relation to:

- “Third Party Test” and threshold for further action as established under the proposed IESBA ethical standard, and
- The documentation requirements established under the proposed ethical guidance.

Furthermore, the IPA is of the opinion the IAASB should consider the impact of the proposed IESBA ethical requirements on the following non audit assurance standards:

- ISAE 3000 - “Assurance Engagements Other than the Audits or Reviews of Historical Financial Information”, and
- ISAE 3420 – “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information to be Included in a Prospectus”.

Our comments on the detailed questions asked in the Exposure Draft are in the attached appendices to this letter.

If you would like to discuss our comments, please contact me or our technical advisers Mr Stephen La Greca (stephenlagreca@aol.com) or Mr Colin Parker (colin@gaap.com.au) (a former member of the AASB), GAAP Consulting.

Yours sincerely



Vicki Stylianou
Executive General Manager, Advocacy & Technical
Institute of Public Accountants

About the IPA

The IPA is a professional organisation for accountants recognised for their practical, hands-on skills and a broad understanding of the total business environment. Representing more than 35,000 members in Australia and in over 65 countries, the IPA represents members and students working in industry, commerce, government, academia and private practice. Through representation on special interest groups, the IPA ensures the views of its members are voiced with government and key industry sectors and makes representations to Government including the Australian Tax Office (ATO), Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) on issues affecting our members, the profession and the public interest. The IPA recently merged with the Institute of Financial Accountants of the UK, making the new IPA Group the largest accounting body in the SMP/SME sector in the world.

Cc The Auditing and Assurance Standards Board

Appendix A

Question

Whether the respondents believe the proposed limited amendments are sufficient to resolve actual or perceived inconsistencies of approach or to clarify and emphasise key aspects of the NOCLAR proposals in the IAASB's International Standards?

IPA Response

The IPA is of the view that ISA 250 should be self-contained, and as such the proposed changes to ISA 250 are deficient in that they do not provide adequate guidance in relation to:

- "Third Party Test" and threshold for further action as established under the proposed IESBA ethical standard. Guidance from the proposed IESBA NOCLAR standard, including paragraphs 225.21 to 225.29, should be replicated in ISA 250. In particular, ISA 250 needs to directly deal with the concept of "substantial harm" introduced in the proposed IESBA NOCLAR standard, and the "third party test" (paragraph 225.25 of the proposed IESBA NOCLAR standard). The proposed amendments do not deal with these fundamental concepts and as such the IPA believes the revised ISA 250 is inadequate.
- The documentation requirements established under the proposed ethical guidance should be consistent with those set out in the proposed IESBA NOCLAR standard, in particular, paragraph 225.31.

Question

The impacts, if any, of the proposed limited amendments in jurisdictions that have not adopted, or do not plan to adopt, the IESBA Code. For example, would any of the changes to the IAASB's International Standards be deemed incompatible with the relevant ethical requirements that would apply in those jurisdictions?

IPA Response

Not applicable.

Appendix B

Invitation for Additional Input

Question

Whether the existing distinction between the types of law and regulations (see paragraph 6 of ISA 250) and the different level of work effort applied to each under extant ISA 250 warrants further investigation or revision?

IPA Response

The IPA is of the view the existing differentiation in ISA 250.6 is appropriate as the function of the audit is in relation to the financial statements and as such consideration of laws and regulations needs to be primarily in the context of the impact on the financial statements.

Question

Whether ISA 250 should address making inquiries of management or, when appropriate, TCWG, regarding NOCLAR that may occur?

IPA Response

The IPA agrees consideration should be made for ISA 250 to address making enquiries of management and TCWG for NOCLAR. The IPA believes such considerations should take a form similar to those in ISA 240 in relation to fraud, including procedures corresponding to those required by ISA 240.17-21.

Question

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’.

IPA Response

The IPA considers where NOCLAR has been assessed as having a potential material impact on the financial statements an understanding of the client’s compliance framework will be necessary.

Question

How ISA 250 addresses personal misconduct related to the business activities of the entity or parties associated with the entity, including contractors.

IPA Response

While the IPA acknowledges some guidance addressing personal misconduct would be useful, it does not consider that this should represent a priority in the IAASB work program. The IPA considers, that unless the personal misconduct is likely to give rise to a material misstatement of the financial statements it is unlikely to be relevant from an audit perspective.

Question

How NOCLAR is addressed in other ISAs, such as where when dealing with the auditor's experts and in a group audit situation?

IPA Response

While the IPA acknowledges that guidance on instructing group auditors and experts in relation to NOCLAR, the IPA does not see such revisions as a priority in the IAASB work program. Other ISAs that may also have NOCLAR implications that the IAASB could also consider include:

- ISA 550 "Related Parties" – various regulatory restrictions on certain related party transactions exist in various jurisdictions. In the course of an audit it may become apparent relevant regulatory requirements and restrictions have not been complied with. Guidance on the auditor's response would be useful.

In addition, the IAASB should consider the impact of the proposed IESBA ethical requirements on the following non audit assurance standards:

- ISAE 3000 - "Assurance Engagements Other than the Audits or Reviews of Historical Financial Information; and
- ISAE 3420 – "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information to be Included in a Prospectus".