

# NOCLAR

---

## Part 3 & Part 5

Communicating  
NOCLAR (or  
suspected  
NOCLAR) to  
Auditor / SAP



# Communicating NOCLAR

## Extant Part 3 s360

### Current Regime

#### Audit of FS

PA (Auditor) has no responsibility to communicate with other PAs

#### Services other than audit

PA responsibility to communicate with Auditor

## WS2 Proposal - Summary

### Part 3

s360

### Part 5

s5360

#### Audit of FS

New responsibility for  
PA (Auditor) to  
communicate with SAP

SAE that meets  
independence criteria

Responsibility of SAP to  
communicate with  
Auditor

*(see slides 4-11)*

#### Services other than audit

No change in PA  
responsibility to  
communicate with  
Auditor

Other SAEs and services

Responsibility of SAP to  
communicate with  
Auditor

*(see slides 12-19)*

# Communicating NOCLAR

**Part 3**

s360

**Audit of FS**

**Part 5**

s5360

**SAE that meets  
independence  
criteria**



## WS2 Proposal

### Part 3

s360

Audit of FS

New responsibility for PA (Auditor) to consider communicating NOCLAR to SAP performing SAE that meets independence criteria

### Part 5

s5360

SAE that meets independence criteria

Responsibility of SAP performing SAE that meets independence criteria to consider communicating NOCLAR to Auditor

# Communicating NOCLAR

## WS2 Proposal



**Part 3**  
(New R360.18a)

Consider communicating  
NOCLAR / suspected  
NOCLAR to SAP



**Part 5**  
(Equivalent R360.18a)

Consider communicating  
NOCLAR / suspected  
NOCLAR to Auditor

# Communicating NOCLAR

## WS2 Rationale:

Audit of FS

*same public interest*

SAE that meets  
independence criteria

The requirement for the SAP to consider communicating with the Auditor and vice-versa does not differentiate between the Auditor/SAP belonging to the same firm, to the network firm, or being outside the firm/network firm → **All situations are covered by the same requirement**

- Proposal to add a **new factor** to new 360.18a A1 (Part 3) and equivalent 360.18a A1 (Part 5): whether the firm's or network firm's protocols or procedures address communication of NOCLAR within the firm or network firm (*consistent with extant R360.31-32*)
- Proposal **not to have** a factor related to the likely materiality of the NOCLAR situation to the audit of FS (in Part 5) or the SAE (in Part 3) because it might not be reasonable to expect the SAP or Auditor (respectively) to recognize that materiality, especially if the SAP/Auditor is not familiar with integrated reporting

# Another Option

SAP required to communicate NOCLAR/  
suspected NOCLAR to Auditor



SAP required to communicate NOCLAR/  
suspected NOCLAR to other SAPs



## Part 5 s5360

SAE that meets  
independence  
criteria

### WS2 also considered this option:

In addition to requiring the SAP performing SAE that meets independence criteria to consider communication with the **Auditor**, add another requirement for the SAP to consider communicating NOCLAR to **other SAPs** (if any) that also perform SAEs that meet independence criteria for the same client

#### Rationale:

- Same public interest underpins those performing a FS audit and SAEs that meet the independence criteria. Therefore, creating a requirement for communication with the Auditor would imply creating a parallel requirement for communication with other SAPs also performing an SAE that meets the independence criteria



# Another Option

SAP required to communicate NOCLAR/  
suspected NOCLAR to Auditor



SAP required to communicate NOCLAR/  
suspected NOCLAR to other SAPs



## Part 5 s5360

SAE that meets  
independence  
criteria

### WS2 proposes not to include this possible additional requirement

- Given the financial materiality aspect of sustainability reporting, identification of NOCLAR in sustainability assurance will most likely have an impact on FS audit and therefore communication with the auditor is particularly relevant and important
- May be difficult for SAP to know (i) if client engaged other SAPs and (ii) whether those other SAPs are performing SAEs that meet the independence criteria
- According to SRG, situation where two or more SAPs perform SAEs that meet the independence criteria for the same client may be uncommon (at least in the UK)

# Another Option

SAP required to communicate NOCLAR/  
suspected NOCLAR to Auditor



SAP required to communicate NOCLAR/  
suspected NOCLAR to other SAPs



## Part 5 s5360

SAE that meets  
independence  
criteria

### Instead, WS2 proposes:

- If a client engages two or more SAPs to perform SAEs that meet the independence criteria and NOCLAR is identified, then the SAP in question shall address it with management and TCWG in accordance with the general NOCLAR provisions (i.e., the SAP is not required to consider communicating directly with the other SAP/SAPs)
- This approach is in line with the following PIF characteristics: clarity and conciseness of the standards as well as their scalability (over time), implementability and enforceability

# Does IESBA agree with WS2's proposals?

- Regarding the communication provisions under NOCLAR sections for audits of FS (in Part 3) and SAEs that meet independence criteria (in Part 5)



# Communicating NOCLAR

**Part 3**  
s360

**Services other  
than audit**

**Part 5**  
s5360

**Other SAEs and  
services**



## WS2 Proposal

### Part 3

s360

Services other than audit

No change in existing PA responsibility to communicate with Auditor

### Part 5

s5360

Other SAEs and services

Responsibility of SAP to communicate with Auditor that mirrors Part 3

Mirror

Mirror

# Communicating NOCLAR

## Part 3

s360

Services other than audits

### WS2 Proposal

No change to existing requirements in s360

#### Client is

- Audit client of the firm
- Component of audit client of the firm



Extant  
R360.31

#### PA is required to

- Communicate NOCLAR within firm

#### Client is

- Audit client of a network firm
- Component of audit client of a network firm



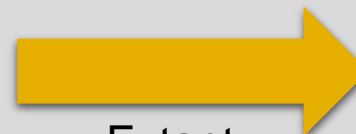
Extant  
R360.32

#### PA is required to consider

- Communicating NOCLAR within network firm

#### Client is not

- Audit client of the firm / network firm
- Component of audit client of the firm / network firm



Extant  
R360.33

#### PA is required to consider

- Communicating NOCLAR to the auditor of FS

# Communicating NOCLAR

## Part 5 s5360

Other SAEs and services

### WS2 Proposal

Mirror extant requirements in Part 3 (s360)

#### Client is

- Audit client of the firm
- Component of audit client of the firm



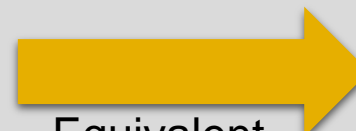
Equivalent  
R360.31

#### SAP is required to

- Communicate NOCLAR within firm

#### Client is

- Audit client of a network firm
- Component of audit client of a network firm



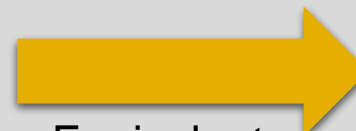
Equivalent  
R360.32

#### SAP is required to consider

- Communicating NOCLAR within network firm

#### Client is not

- Audit client of the firm / network firm
- Component of audit client of the firm / network firm



Equivalent  
R360.33

#### SAP is required to consider

- Communicating NOCLAR to the auditor of FS

# Communicating NOCLAR

## WS2 Rationale

**Communicating NOCLAR to the auditor is particularly relevant and important**

- Given the financial materiality aspect of sustainability reporting, the identification of NOCLAR in sustainability assurance will most likely have an impact on the audit of FS

**Part 3**

s360

Services other  
than audits

**Part 5**

s5360

Other SAEs and  
services



# Another Option

In addition to requirement to communicate NOCLAR for purposes of audit of FS (slides 14 and 15), add new requirements for PA/SAP to communicate NOCLAR also for purposes of SAEs that meet the independence criteria

## WS2 proposes not to include this option because:

### Communication for audit purposes is sufficient

- If a PA who is not the auditor (Part 3 - see slide 14) or a SAP who is not performing SAE that meets independence criteria (Part 5 - see slide 15) communicates NOCLAR to the auditor, that communication will, in turn, trigger the auditor to consider communicating with SAP that performs SAE that meets independence criteria (proposed new requirement in Part 3 - slide 6)
  - This means SAP can still become aware of NOCLAR via communication from the auditor

### Communicating NOCLAR to management/TCWG is the priority

- In accordance with general NOCLAR provisions
- Communication with third parties (such as auditor/SAP) should be a last resort – as evidenced by the factor in extant/equivalent paragraph 360.34 A1 relating to whether management or TCWG have already informed the auditor about the matter

# Another Option

In addition to requirement to communicate NOCLAR for purposes of audit of FS (slides 14 and 15), add new requirements for PA/SAP to communicate NOCLAR also for purposes of SAEs that meet the independence criteria

## WS2 proposes not to include this option because (*cont.*):

**Would result in a very complex regime** that may impact adoption and implementation of the Code

- WS2's proposed approach is in line with the following PIF characteristics: clarity and conciseness of standards as well as their scalability (over time), implementability, and enforceability
- Upcoming NOCLAR PIR will assess effectiveness of the extant regime and consider the need to strengthen the NOCLAR provisions more holistically
- WS2's proposed approach focuses on first ensuring that users of Part 3 (PAs) and Part 5 (PAs and non-PAs) understand how NOCLAR provisions work before elaborating on them

# Does IESBA agree with WS2's proposals?

- Regarding the communication provisions under NOCLAR sections for services other than audits (in Part 3) and other SAEs and services (in Part 5)

