I. Changes Based on IAASB Feedback

1. Broadly, the Task Force’s proposed changes to the close-off text based on the IAASB feedback are as follows:

   - The introduction of a new paragraph 225.11 that sets out an overarching requirement for timely action by the professional accountant, which would apply throughout Section 225. This responds to a comment from the IAASB that the need for timely action should apply not only in relation to communication with respect to a group audit but also throughout the response process. As a result, the references to “on a timely basis” in paragraphs 225.21 and 22 have been deleted. A corresponding change has been made in Section 360 (see paragraph 360.12).

   - In relation to communication with respect to a group audit:

     o Use of more generic wording in place of the term “auditor of a component” 1 in paragraphs 225.21 and 225.22 in the context of an audit of group financial statements. This to minimize the potential for conflict with terminology that a future revised ISA 600 might use. 2

     o In paragraph 225.21, amending the guidance that refers to enabling the group engagement partner “to determine how” the matter should be addressed in accordance with the provisions of the section so that it reads:

       “to determine, in the context of the group audit, whether and, if so, how the matter should be addressed in accordance with the provisions of the section.”

       This amendment avoids creating an expectation that the group engagement partner must take action to address the matter in all cases. It also avoids conveying the impression that the group engagement partner is expected to decide for the auditors of the components how they should deal with the matter.

       Conforming changes to align with the revised wording “to determine whether and, if so, how” have been made to paragraphs 225.22 and 225.48.

     o In paragraph 225.21, making the following deletion: “Be engaged by the component to perform an audit…”. This is to recognize circumstances where it may not necessarily be the component that engages the professional accountant to audit the component’s financial statements (e.g., the component may be a branch and not a separate legal entity with rights to enter into contracts).

     o In paragraph 225.22, making the following addition: “…in addition to responding to the matter in the context of the group audit in accordance with the provisions of section…”.

       This is to avoid creating an expectation that the group engagement partner will be

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1 ISA 600, Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors), provides a specific definition of the term “component auditor.”

2 The IAASB is currently seeking public comments on matters relating to the topic of group audits as part of its Invitation to Comment, Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control, and Group Audits.
responsible for responding to a NOCLAR matter identified at a component for the component auditor.

- In paragraph 225.31:
  (a) Making it clear that the provision applies only where the withdrawal from the professional relationship is as a result of taking further action pursuant to the section and not for other reasons; and
  (b) Making the communication requirement from the predecessor auditor to the proposed successor auditor conditional on the latter approaching the former. This addresses a concern from the IAASB regarding the feasibility of the predecessor auditor identifying who the proposed successor might be.

### Matter for Consideration

1. Do IESBA members agree with the Task Force’s proposals?

### II. Changes Based on Further IOSCO C1 Feedback

2. The Task Force proposes two changes to the close-off text in response to the further feedback from IOSCO C1:

- Regarding circumstances where a professional accountant in public practice (PAPP) providing a non-audit service (NAS) becomes aware of NOCLAR and the client is also an audit client of the firm or a network firm, IOSCO C1 questioned why the PAPP was only required to consider communicating the matter within the firm or to the network firm. There was a concern that from the point of view of investor perceptions, it would be difficult to justify why information about the instance of NOCLAR or suspected NOCLAR was not shared within the firm or with the network firm as a matter of course, especially where the firm or network firm operates under the same name.

The Task Force noted that the proposal in the May 2015 re-Exposure Draft (re-ED) was a requirement to communicate the matter within the firm, and a requirement to consider communicating the matter to the network firm. This position was largely supported by respondents. However, in responding to other comments from respondents to streamline the provisions addressing the communication within the firm, to a network firm and to an external auditor that is not the firm or a network firm, the Task Force had proposed merging the different provisions into a single paragraph with the same requirement to consider communicating the matter, subject to the same factors in paragraph 225.47. On reflection, the Task Force believes that doing so may have inadvertently weakened the position with respect to communication of the matter within the same firm. The Task Force agreed that from a public perception standpoint, there will be a strong expectation that information about the matter be shared within the firm. However, for the reasons articulated in the explanatory memorandum to the re-ED, the Task Force believes that the position with respect to communication to a network firm may be more complex and nuanced and should therefore be subject to more judgment, particularly given that the network firm may be a different legal entity based in another jurisdiction.

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3 See paragraph 77 in the re-Exposure Draft, [Responding to Non-Compliance with Laws and Regulations](#)
The Task Force therefore proposes reverting to the position in the re-ED, i.e.:

- A requirement to communicate the matter within the firm unless prohibited by law or regulation (see paragraph 225.44).
- A requirement to consider communicating the matter to a network firm or another external firm that is the client’s external auditor (see paragraphs 225.45-46), taking into account the various factors set out in paragraph 225.47.

The Task Force believes that this position is appropriately balanced, taking into account the practical considerations involved in communicating across a network.

- In relation to the documentation requirement for auditors, IOSCO C1 questioned why the documentation would be limited to “significant” NOCLAR. C1 argued that there should not be a significance filter regarding NOCLAR matters that should be documented, particularly as no guidance was provided in the proposals as to how auditors should assess significance.

The Task Force noted that application of the requirement would call for the exercise of appropriate professional judgment, taking into account the particular facts and circumstances. However, on further reflection, the Task Force noted that the documentation requirement in ISA 250\(^4\) is not subject to a significance filter. For this reason, the Task Force believes that there would be potential for inconsistent documentation with respect to identified or suspected NOCLAR under the Code and under the ISAs, despite the fact that the Code would call for certain additional matters to be documented with respect to specific instances of NOCLAR or suspected NOCLAR.

Accordingly, the Task Force proposes that the significance filter be removed from the documentation requirement in paragraph 225.37. This would then make the threshold for documentation under the Code consistent with that under the ISAs. Conforming changes have been made to the corresponding provisions for documentation (which is encouraged but not required) for PAPPs providing services other than audits of financial statements, and PAIBs (see paragraphs 225.56, 360.32 and 360.37).

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## III. Other Changes

3. In addition to minor editorial fine-tuning, the Task Force proposes the following further changes, including in response to comments from IESBA members:

- Changing the subheading above paragraph 225.21 to read more generically: “Communication with Respect to Groups”. This is because paragraphs 225.21 and 225.22 now address audits of component financial statements other than for purposes of a group audit.

- In response to comments from some IESBA members as well as the IAASB NOCLAR Task Force, making the following addition immediately prior to the last sentence in paragraph 225.22: “If necessary in relation to subparagraph (b), appropriate inquiries shall be made

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\(^4\) ISA 250, Consideration of Laws and Regulations in an Audit of Financial Statements
(either of management or from publicly available information) as to whether the relevant component(s) is subject to audit and, if so, to ascertain to the extent practicable the identity of the auditor." This addresses a concern about the practicality of the group engagement partner making inquiries of every component in a group to determine if the component’s financial statements are subject to audit for purposes other than the group audit. The Task Force noted that paragraph 225.22(b) only applies to components where the group engagement partner considers that the NOCLAR or suspected NOCLAR may be relevant, and not necessarily all components within the group.

- In paragraph 225.31, amending the last sentence to read: "If the predecessor proposed successor accountant is unable or unwilling to communicate with the proposed or successor predecessor accountant …". On reflection, the Task Force did not believe that it would be appropriate for paragraph 225.31 to suggest that the predecessor accountant might breach a requirement to communicate that had just been imposed earlier in the paragraph. A conforming change has been made to paragraph 210.13.

- In paragraph 225.36, making it clear through the addition of the words “In exceptional circumstances” that bypassing the response framework in order to make disclosure to an appropriate authority in a situation of imminent breach of a law or regulation, with the potential for substantial harm to stakeholders, is not expected to be a routine occurrence. Conforming changes have been made to paragraphs 225.54 and 360.31.

- In the part of paragraph 224.44 that addressed a component of an audit client of a network firm (now addressed separately in paragraph 225.45), deleting the phrase in brackets ("including the network firm responsible for the group audit engagement as applicable"). This is because once the communication is made to the network firm that is the auditor of the component, that network firm would come under the scope of paragraph 225.21 and would need to comply with that provision regarding communication upstream to the group engagement partner (if the network firm itself is not already the group auditor). Consequential changes have been made to delete the phrase “or group engagement partner, as applicable” from paragraphs 225.44 and 225.48.

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IV. Due Process Matters

SIGNIFICANT MATTERS IDENTIFIED BY THE TASK FORCE

4. In the Task Force’s view, the significant matters it has identified as a result of its deliberations since the beginning of this project, and its related considerations, have all been reflected in the issues papers presented at the Board meetings. In the Task Force’s view, there are no significant matters it has discussed that have not been brought to the Board’s attention.

NEED FOR FURTHER CONSULTATION

5. The Task Force notes that this project has been subject to extensive consultation with stakeholders over the more than 6.5 years it has been on the Board’s agenda, including issuance of two exposure drafts, the holding of three global roundtables, discussion with the CAG on 12 separate occasions,
and numerous consultations with and outreach to the international and national regulatory communities, national standards setters, firms, IFAC member bodies, the IFAC SMP and PAIB Committees, and the investor, preparer and governance communities. The Task Force does not believe that there is a need for further consultation or a roundtable on, or a field test of, the proposals.

**CONSIDERATION OF THE NEED FOR RE-EXPOSURE**

6. The Board’s due process and working procedures require that prior to finalizing the revised content of an exposed international pronouncement, the Board determine whether there has been substantial change to the exposed document such that re-exposure would be necessary. They also require that when an ED has been subject to many changes, a summary comparative analysis be presented to the Board showing, to the extent practicable, the differences between the ED and the proposed final international pronouncement.

7. Under the due process and working procedures, situations that constitute potential grounds for a decision to re-expose may include, for example:
   - Substantial change to a proposal arising from matters not aired in the ED such that commentators have not had an opportunity to make their views known to the Board before it reaches a final conclusion;
   - Substantial change arising from matters not previously deliberated by the Board; or
   - Substantial change to the substance of a proposed international pronouncement.

8. The changes to the re-ED are set out in Agenda Item 1-C in mark-up. Broadly, the main changes are as follows:
   - Clarification of the scope of matters addressed by Sections 225 and 360.
   - General reorganization of the content of the sections for greater clarity and more specific emphasis on important messages.
   - Enhancements regarding communication with respect to group audits.
   - A permission (but not a requirement) to bypass the response framework in exceptional circumstances in order to make disclosure to an appropriate authority in a situation of imminent breach of a law or regulation with the potential for substantial harm to stakeholders.
   - Clarification of the requirement for communication of NOCLAR matters between predecessor and proposed successor auditors.
   - General enhancements to the guidance, including the provision of additional examples.
   - Changes for purposes of consistency within and between the two sections, with other sections of the Code, and with the ISAs.

9. On the basis of the above, the Task Force believes that the changes to the text post-exposure are in response to feedback from respondents to the re-ED and do not fundamentally or substantively change the proposals in the re-ED. In the Task Force’s view, there are no substantial changes arising from matters not previously deliberated by the Board or aired in the re-ED. Accordingly, the Task Force believes that re-exposure is not necessary.
Matter for Consideration

4. Do IESBA members agree that the changes to the re-ED do not warrant re-exposure?

V. Effective Date

10. At the March 2016 meeting, the Board agreed that, subject to approval of the final text at the April 25th IESBA teleconference and approval of due process at the June 2016 PIOB meeting, the pronouncement should be effective as of July 15, 2017 for both PAPPs (including PAPPs performing audits of financial statements) and PAIBs. This means that the final provisions will apply to non-compliance or suspected non-compliance that comes to the professional accountant’s attention on or after July 15, 2017.

11. The Task Force discussed this proposed effective date with the IAASB Task Force. While the IAASB Task Force has not yet finalized its recommendation to the IAASB regarding the effective date for the changes to the ISAs, there was general consensus between the two task forces that the effective date for the changes to the Code and the changes to the ISAs need not be aligned. This is because the changes to the ISAs are intended to clarify how the ISAs interact with the Code with respect to NOCLAR, but do not change the auditor’s work effort under the ISAs. Whichever effective date the IAASB sets for the changes to the ISAs, early adoption would be permitted.

12. In the light of the above, the Task Force proposes, subject to PIOB approval of due process, that the Board set the effective date for the changes to the Code as July 15, 2017.

Matter for Consideration

5. Do IESBA members agree to set the effective date for the changes to the Code as July 15, 2017?